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conditioned by the fact that it was an agricultural country developing with the aid of foreign capital. A positive balance of trade was usually devoted to covering the invisible exports—interest on state borrowings and returns on foreign capital invested in the country. Under postwar circumstances, the fairly stable situation which had obtained before 1914 was thrown out of equilibrium as a consequence of war losses, the incurrence of war debts, and the decline in cereal exports. German investments, which had been of major importance before the war, were cut off and were not replaced by an equivalent influx from the West. Despite Rumania's generally favorable balance of trade, the balance of payments was negative.

Rumania's financial position was further weakened by the chronic instability of the leu. Following the First World War the leu depreciated until 1927. It was legally stabilized in 1929 with the aid of an international loan of $100 million. This effort, however, was wrecked by the depression and the collapse of central European finance in 1931. In the 1930's Rumania, though at a somewhat later date than the other Balkan states, was forced to introduce exchange controls and suspend a considerable portion of the foreign debt payment. The gradual move toward increasing financial and commercial controls was largely a consequence of exchange difficulties. Despite the relatively favorable commercial position, Rumania was even less successful than the other Balkan states in achieving monetary stability, and the value of the leu continued to decline. By 1939 the Rumanian monetary situation was altogether chaotic, and the diversity of the rates of the leu made it impossible to ascertain the real value of the money.[20]

It is beyond the scope of this study to analyze the tortuous course of Rumanian financial and monetary policy, which was extremely complicated, subject to frequent change, and not successful in achieving its aims. In general, the financial field showed Rumanian administration at its worst. While the real difficulty was basically that of an immature economy attempting to catch up with a world economy —itself in serious crisis—the fact that Rumania, although in a somewhat better commercial position than the other Balkan states, was even less successful in its financial policy must be attributed largely to the political circumstances of the 1930's.

To some extent Rumania's financial vicissitudes by-passed the peasant in so far as he was leading a self-subsistent, nonmonetary life. He was principally affected in his requirements for credit. Although, as has been mentioned above, the Rumanian peasant was not in a

20. Madgearu, *op. cit.*, p. 223.

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share, because of stricter tax collection, and were receiving less in the way of public benefits.

2. RECOVERY

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In tackling the problem of economic recovery the Liberal Minister of Finance, Vintilă Brătianu, adopted a policy of stern but primitive retrenchment. A dogged and truculent nationalism was manifest in the futile effort to revalorize the leu, in the restrictive tariff schedules, and in the suspicious attitude toward the investment of foreign capital. While his policy did achieve some desirable financial housecleaning, it was a strait jacket on the Rumanian economy and signally failed in its major aims. The fault, perhaps, lay not so much with his ideas as such, which did show a sturdy desire that Rumania should stand on its own feet, as with the fact that his goals and technique were not in accord with the potentialities of the Rumanian economy and administration.

One of Vintilă Brătianu's paramount aims was a balanced budget, which he saw as the keystone to the country's economic well-being. Between 1919 and 1922 the budgets, even though they made no provision for servicing the national debts, showed deficits which were covered by new issues of paper currency. He set about to balance the budget by cutting expenses to the bone, by covering expenses solely from the normal resources of the state, and by giving the budget sufficient elasticity to meet the fluctuations of the currency. Beginning with the fiscal year 1922–23 the budget showed a constant surplus of revenues over expenditures. Later reports of the French technical adviser to the National Bank indicate, however, that the announced surpluses in this period were in fact either nonexistent or far smaller than would appear from the accounts.[40] He also succeeded in consolidating part of Rumania's considerable foreign indebtedness by means of a British loan and in arranging for regular means of payment of a portion of the nation's debts.[41] These measures were necessary in clearing up the complete economic chaos of the war years; they did not, however, succeed in really strengthening the economy.

40. According to the Royal Institute of International Affairs, *The Balkan States: I. Economic*, p. 48, somewhat the same thing occurred in all the Balkan states. After 1924 most of them showed a budgetary equilibrium that was, in fact, largely fictitious, partly because of doubtful accounting techniques, and the continued increase of expenditure even after the *de facto* stabilization of the currencies, indicating that the budget equilibrium was dependent upon continued rising prices.

41. V. V. Baduleseu, "La Dette publique roumaine," *L'Economiste roumain*, 2, No. 4 (April, 1926), 111–114.

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Vintilă Brătianu was particularly unsuccessful in his efforts to revalorize the leu, which had been one of the chief reasons for his budget policy. The currency had been badly hit by the war, by the unbalanced budgets which had led to state borrowing from the National Bank, and by the unfavorable balance of payments. In 1923, however, with the balanced budget and the funding of some of the foreign debts, the currency ceased to depreciate, although it remained very unsteady. His severe deflationist policy, which was to restore the leu to its prewar gold level in the course of ten or fifteen years, had a depressing effect upon production; the restriction of currency led to a stringency in credit and a great rise in the interest rate. The leu did not recover but wobbled in such a manner as to create an atmosphere of chronic uncertainty in trade and industry. As the years passed there was increasing clamor for a stable currency. Vintilă Brătianu was reluctant to seek the aid of foreign powers or the League of Nations in stabilizing the currency, largely, it appears, because of a fear of external interference and supervision over internal financial policy.[42] In 1927, however, the original plan of revalorization was abandoned, and the last hectic year of the Liberal regime was spent in attempting to secure a foreign loan to stabilize the currency. But by that time the internal political situation had placed Vintilă Brătianu in the center of a vicious circle: the political crisis impeded his foreign negotiations and his delay in obtaining the loan undermined his position in the country.

The same exaggerated and self-defeating rigidity is to be seen in the field of foreign commerce. Immediately after the war, when production was low and demand great, export trade was put under severe controls and restrictions, though imports were unrestricted. The resulting great excess of imports over exports was checked in 1921 by rising tariffs. After the Liberals came to power the import tariff became increasingly an instrument of industrial protection. Tariffs were raised in 1924 and again in 1926 and 1927. By the end of the Liberal regime, Rumania had one of the highest tariff systems in Europe. This policy was in accord with the whole tenor of Liberal thinking with its emphasis upon the protection of industry.

More surprising, however, was the policy on exports. After 1922 the initial system of export prohibitions and quotas was dropped but was replaced by high export duties. There were several reasons for these export restrictions and duties. They were designed in a period of shortage to keep down the internal cost of living as an anti-inflationary move. They facilitated the process of directing the trade of

42. *L'Économiste roumain*, 2, No. 9 (June 15, 1927), 164.

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the new territories away from Austria, Hungary, and Russia and into the domestic market. Most important, perhaps, they came to be an important source of fiscal revenue. Since they were payable in gold or foreign currency, they supplied the government with funds for foreign debt payments.[43] Between 1923 and 1926 they yielded a greater revenue than the import duties; the government was naturally reluctant to part with them. They had, however, an altogether depressing effect upon Rumanian commerce and upon agriculture. Since exports were really the sole means by which Rumania could improve its adverse balance of payments, these duties, in their effect of reducing exports, appear to have very little justification.

Export duties were dropped in 1927, and Vintilă Brătianu announced, "The progressive reduction of these taxes until their final suppression forms, as you know, part of our governmental program." At this time he took the position that Rumania was at last ready to move on to a new stage of activity. "If up to the present I have been obliged to perform the work of a doctor in healing the wounds of the past, I hope to be able to resume in the future my profession as engineer—which is to create." [44] Whether or not one accepts his assertion that the Liberals had planned these changes all along, it must be admitted that the Liberals were remarkably adept at reversing themselves and then assuming credit for farsightedness.

To summarize, the Liberals' policy for recovery was only in part successful. Despite an almost puritanical view toward the economy and the desire to improve "through ourselves," their program had a way of destroying on the one hand what it attempted to create with the other. The Brătianus' injunction that Rumania get a firm grip on itself seemed likely to lead to self-strangulation.

3. INDUSTRIALIZATION AND EXPLOITATION OF RESOURCES

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The Liberals not only tried to bring about economic recovery, they were also intent upon exploiting the natural resources of the country and creating a national industry, primarily by state encouragement. In 1927 Vintilă Brătianu defined the principal factors in the development of the nation's riches as "the state, professional chambers, official bodies, and private action, individually or in association." [45] A law for the encouragement of national industry, already passed in 1912, was extended to the whole of Rumania in 1921. Industries

43. Pasvolsky, *Economic Nationalism of the Danubian States*, p. 422.

44. Vintilă Brătianu, exposé de motifs for the 1928 budget, *L'Economiste roumain*, 3, No. 10 (December 1, 1927), 398.

45. *L'Economiste roumain*, 3, No. 4 (April 1, 1927), 93.

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of impurities. An improvement was undoubtedly desirable. Yet the low quality of exported grain was but a symptom of the generally bad condition of agriculture. Attacking the problem at the level of exports was indicative of the Liberals' attitude. The opposition sharply criticized the law as missing the point: "We are not suffering from a commercial crisis," said Mihalache, "but from a crisis of production. The problem of production must be solved first." [88]

In July, 1928, shortly before the Liberals fell they passed a cooperative code which had little effect except to reorganize previous cooperative organizations and to increase the direct control of the state. On the whole, as has been mentioned, the cooperative movement was and remained weak and ineffectual. In 1923–24 the National Bank granted 600 millions of lei credit to the whole of the cooperative movement, whereas private bankers received 7,500 millions.

A "battle for production" was inaugurated in 1928 by the Minister of Agriculture, Argetoianu, and in March an agricultural congress voted a resolution which is striking in its complete emphasis upon technical improvements: better seeds, more rational crop rotation, more fertilizers, the expansion of experimental stations. The resolution opposed a further extension of the area under wheat and recommended an effort to raise the output per hectare. In no case, however, did it penetrate to the level of agrarian reforms, as defined in the preceding chapter, but was wholly occupied with desiderata, which were simple enough to call for but very difficult to achieve.

These final efforts of 1928 were, however, of little import, as they were in large part a belated effort to meet the challenge of the opposition which was on the point of coming to power.

It is not easy to judge the successes and failures of the Liberals' economic policy. It seemed easier immediately after their defeat to see their errors and particularly their shortcomings in the agrarian question. But with the failure of subsequent administrations to improve agriculture or to provide a stable economy the nature of the Liberal failure becomes less obvious. Moreover, many of the economic practices of the Brătianus, regarded as heretical at the time, have become generalized not only in the Balkans but throughout Europe; state-supported industrialization has become a commonplace and has received a substantial body of theoretical justification. Yet with all these added qualifications, it may be concluded that the Liberal policy failed.

88. Quoted in Mitrany, *op. cit.*, p. 482.

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665 foreign capital is to be sought to repair the national economy. Thirdly, if not as an afterthought at least not underlined, agriculture is to be assisted. Considering the battle against Liberal arbitrariness and the general clamor for a stable currency and foreign capital, such an order of emphasis is not surprising, but it does indicate that direct interest in the welfare of the peasantry was qualified by other, though not necessarily unrelated, considerations.

In the general elections of December 12 the National Peasants, allied with the German party and the Social Democrats, won an overwhelming victory in what is conceded to have been a free and fair election. They gained about 80 per cent of the votes and 348 seats in the chamber (333 seats to the National Peasants, 7 to the German party, and 8 to the Social Democrats). The Liberals obtained only 13 seats; the Averescu-Iorga coalition 5; the Magyars 16; Dr. Lupu's dissident peasants 5; the Peasant Labor party (a Communist organization) and Cuza's anti-Semitic Christian League failed to gain the necessary 2 per cent of the votes. Despite their criticism of the 1926 electoral law, the National Peasants did not repeal it when they came into office and, like the other parties, took advantage of the government premium.

665 The first major step was the stabilization of the leu. Vintilă Brătianu's foreign negotiations were resumed, and an agreement was 652 reached in Paris on February 8, 1929.[1] A $72,000,000 loan for stabilization and railway construction was floated in Washington, London, and Paris; a further $30,000,000 was secured against a concession of the Rumanian match monopoly to a Swedish group. The security of the loan was based on the revenues of the Institute of State Monopolies, created for the purpose. Orders for railway equipment were to be made in the countries floating the loan. The French economist, Charles Rist, who had informed Maniu in December that the loan was dependent upon a reorganization of the treasury, went to Bucarest to supervise the loan and the operation of Rumanian finances. All these conditions were, of course, precisely what Vintilă Brătianu had hoped to avoid through his unsuccessful policy of revalorization. On February 8 the Rumanian assembly passed a law fixing the leu at 10 milligrams gold, 167.18 lei to the dollar.[2]

The government worked hard to attract foreign capital and to set

2. Largely for reasons of prestige, Brătianu, unlike the governments of the other Balkan states, had not gone to the League of Nations for the stabilization loan but had sought it through independent negotiations. Maniu felt obliged to continue this course, although it was reported that he could have obtained better terms through the League.

3. For a detailed account of the monetary reform, see Alexandre-Ionesco Ivanof, *La Réforme monétaire roumaine* (Paris, 1929).

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internal finances in order. In March the 1924 mining law was revised to give more favorable treatment to foreign concessions. State expenditures were reduced through the elimination or consolidation of several ministries.[4]

For all their energetic beginning, before the National Peasants had been in power a year, the first flush of enthusiasm was beginning to fade. The badly defeated opposition undertook to rally its forces and started a press campaign of villification and sensational rumors. After the passage in July of the administrative reform bill, which attempted to reduce excessive centralisation and place greater authority in the hands of local administrations, both the Liberals and General Averescu's party withdrew from the assembly. In the same month was uncovered an absurd fascist plot among army officers to overthrow the government. To defend the regime against these fascist currents, some of the party's younger followers set up their own paramilitary bodies.

At the same time that the Right was increasing its activities, the government came into conflict with the Left. Bessarabia was still a trouble zone; there were frequent reports of Soviet espionage teams crossing the Dniester. In February, 1929, A. Dobrogeanu-Gherea, son of the old Social Democratic leader and himself a former leader of the Rumanian Communists, was arrested and sentenced to eight years' imprisonment for secretly returning to Rumania from the U.S.S.R. In August a strike broke out among 3,800 coal miners in the Jiu Valley. Troops were called and when the strikers attempted to take over the electric plant of the Lupeni mines the troops fired, killing over a score of miners. The massacre in the Jiu Valley has often been cited as an example of the perfidy of the National Peasants, but it should be said that when the government investigated the event, it not only blamed the miners for having violated the law but also censored the mining companies for permitting the conditions which had led to the strike. It dismissed all the police and military officials connected with the affair.

A couple of months later an attempt was made on Vaida Voevod's life. In the investigation which followed, one suspect, who was later proved to have been innocent, was horribly beaten and crippled by the police. Again there was a public scandal and the government

4. The bewildering changes in the names and numbers of Rumanian ministries seem to be largely a result of the need to provide portfolios for persons or groups who have supported the administration. The Ministry of Fine Arts has been the favorite post to be granted as a political reward.

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241 cial organization. But the agrarian policy had other defects. In the
665 first place, the National Peasants fell into the old Rumanian fallacy
654 of counting too greatly upon an act of legislation to cure any problem.[86] Much more serious however was the fact that while the National Peasants had an agrarian policy it was scarcely a peasant policy. The measures actually taken were not of the kind that could greatly help the poor peasant. The modifications of the party programs between 1921 and 1926 foreshadowed this attitude, but even so the more far-reaching parts of the 1926 program were not carried out.

665 Measures intended to benefit agriculture were not, however, limited
241 to agricultural legislation. The new tariff policy inaugurated by the
● 652 National Peasants on August 1, 1929, was specifically designed to assist the farmer. The National Peasants had consistently attacked the Liberals' (and the People's party's) tariff policy, which was highly protectionist, raised the cost of agricultural equipment, and was "in its technical structure a feeble instrument of negotiation for securing markets for our export products."[87] The new tariff was, as Madgearu announced, based on the recommendations of the Geneva Conference of 1927. It created a more elastic customs system to permit commercial conventions with other states. Duties on goods were divided into two groups: 1) irreducible minimum duties for goods produced within the country and requiring protection; these could not be reduced through convention; 2) duties on all other articles, which could be reduced through mutual arrangement with other states. Even before signing any customs conventions the government reduced the duties on agricultural equipment.

In thus lowering the cost of imported agricultural equipment as well as in reducing tariffs on articles of mass consumption, the 1929 tariff undoubtedly benefited the peasant. As to the protection of industry, "it was in general calculated so as not to exceed the difference by which the conditions of local production were more difficult than conditions of foreign production, and only for branches of industry which had the possibility of sound development in the country."[88] The tariffs did not renounce industrial protection but tried

86. Note, for example, Madgearu's remark, "Up to 1929 agricultural instruction in Rumania was based on no uniform principle, nor was it adapted to the situation, since its organization was not based on legislation which could solve the problem as a whole." *Rumania's New Economic Policy*, p. 13. Clearly the real reasons for Rumania's lack of adequate agricultural education were not to be found in the absence of a uniform legal code.

87. Madgearu, *Op. cit.*, p. 89.

88. Madgearu, *Evoluția economiei românești*, p. 231.

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to protect only those industries showing "natural" promise of development and to promote the necessary rationalization of these industries which had been permitted to become inefficient behind the Liberal tariff.

Throughout Madgearu's exposition of the 1929 tariff there is an evident desire to increase international cooperation and trade, and an altogether friendly attitude toward the great capitalist powers—an attitude quite different from Vintilă Brătianu's cautious and rather grudging admission of the need for increased trade and foreign capital. This attitude is most clearly shown in the laws of 1929 modifying the Liberal acts of 1924 on mines and the commercialization of state-owned enterprises.[59] The National Peasants criticised the 1924 laws as chauvinistic and failing to promote the exploitation of natural resources. "The aggressive nationalist policy exemplified in the Mining Act of 1924, which did so much harm to the country, bringing it into a state of financial and economic disorganization, could not continue without grave consequences for our economic future. A policy of sincere co-operation with international capital is the only means of improving the situation." [60] The new laws threw open the doors to foreign capital. With the exception of requiring that 75 per cent of the personnel (both administrative and subordinate) be Rumanians, no restrictions were placed on the percentage of foreign capital in the companies or upon the nationality of directors and chief officials.

These laws were in marked contrast not only to the attitude of the Liberals but also to the policy recommended by Constantin Stere in 1921.[61] Stere, with his hostility to "vagabond capital" and the menace of imperialist great powers, opposed foreign capital investments in the Rumanian petroleum industry, since all profits passed beyond the frontiers. Nor was foreign capital concerned with satisfying the needs of the population but only with raking in a profit. He was, however, aware that without foreign capital the resources simply could not be developed. He disapproved of the Liberals' policy of "nationalizing" petroleum and creating concessions with a majority of Rumanian capital. Having no confidence in the Liberal plutocracy's willingness or ability to defend the nation's interests, Stere advocated state operation of the petroleum industry. Foreign capital

59. A detailed comparison of Liberal and National Peasant policy on this question, from a pro-Liberal position, is given by Alexandre G. Georgesco, *Le Régime juridique et financière des capitaux étrangers en Roumanie* (Paris, 1932).

60. Madgearu, *Rumania's New Economic Policy*, p. 90.

61. C. Stere, *Naționalizarea Industriei de Petrol: Cuvântare rostită în ședința Adunării deputaților din 28 Martie 1921* (Bucarest, 1921).

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should be obtained not through investments but through loans undertaken by the state. In this way Rumania would have full control over the allocation of capital and would not, except for the interest on loans, see the profits from the oil industry go abroad. The petroleum policy of the National Peasants, as formulated in 1929, was even more removed from Stere's recommendations than from the Liberals' policy. It was, however, perfectly consistent with their economic outlook during their term in office.

Rumanian transportation and communications had been in notoriously bad condition since the First World War, and the Liberals' policy of retrenchment had been particularly damaging to the railway system. The 1929 stabilization loan allocated $34,000,000 for railway expansion and $9,000,000 to pay off overdue railway debts. By a law passed in July, 1929, the National Peasants transferred the state railways to an autonomous public body, "to be administered according to commercial principles."[62] They also undertook to repair and extend the highway network, and abolished the primitive *corvée* which was still being used for road maintenance. In 1930 the International Telephone and Telegraph Corporation received a concession for the construction of the Rumanian telephone network.

The stabilization loan required a reform of the National Bank and of the state accounting system. In March, 1929, the government passed a series of new statutes for the bank; the principal changes were the abolition of the ceiling on the issue of currency, established by the Liberals' in 1925, and the limitation of the influence of the state in the appointment of directors. The bank was given somewhat greater independence from state control and powers to maintain the newly achieved stability of the currency. In July, 1929, the government passed a law reforming the state accounting system and the organization of the budget. There was no doubt that Rumanian state finances needed reform and modernization. The accounting system had been that of France of 1860, plus the accretion of a number of purely Rumanian practices, with the result that the actual condition of government finances at any given time was never known with any exactness. The new law, in reorganizing the preparation of the budget, exerted more stringent control over the expenditures of various ministries. While this law was well intended, its actual results in rationalizing Rumanian finance methods seem to have been very

62. Madgearu, *Rumania's New Economic Policy*, p. 50. The organization of Rumanian railways after 1918 had been altogether hectic. In 1925 the Liberals had given some autonomy to the railways; this policy was reversed by the People's party in February, 1927, and reestablished by the Liberals in August of that year.

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439 656 and 1931, Rumania was somewhat less pressed financially than the other states, and was indeed the last of the Balkan countries to introduce foreign exchange controls and to declare a partial moratorium on foreign debts.[11]

● 652 Nevertheless, Rumania was the slowest to show signs of recovery, an indication that something in addition to the general causes for the depression was having an effect. Such was the opinion of the French foreign advisers to the Rumanian National Bank, MM. Rist and Auboin. According to Auboin, in his report of 1935, a distinction should be drawn between the causes of disequilibrium arising from the world crisis and those proper to Rumania itself. In his opinion the first were predominant between 1929 and 1932 in the fall in prices and the disruption of international credit. But local causes became manifest, especially after 1932, despite a certain easing of international conditions. The two principal evils, in his view, were the weaknesses in the whole Rumanian credit system and the unstable budget position, both of which had afflicted Rumania since the First World War. As a financial adviser he was particularly indignant that the Rumanian government should try to enjoy all the benefits and amenities of a modern state through its expenditures but should still rely upon primitive means of organizing state finances: "It is necessary to adopt and apply not merely the methods of expenditure but also the methods of receipt of modern states."[12]

The fall in prices and the reduction of credit presented the Rumanian peasant with a serious debt load which he was in no position to discharge. The advocates of small peasant agriculture have contended that one of the principal advantages of this form of cultivation was the peasant's resistance to crises through his ability to cut expenses, reduce his relations to the market, and live on his own. It is true that debts contracted for agricultural investment were quite small in Rumania as compared with other European states.[13] Never-

11. Rumania introduced exchange controls on February 27, 1932; Hungary, Czechoslovakia, Yugoslavia, Austria, Bulgaria, and Greece had introduced them between August and October, 1931. Rumania declared a partial moratorium in January, 1933; Greece, Bulgaria, and Yugoslavia had done so in 1932.

12. Roger Auboin, *Rapport annuel sur la situation financière et monétaire de la Roumanie* (Bucarest, 1935), p. 36. Auboin was primarily concerned with Rumania's ability to honor its foreign obligations, and hence stressed the need of tightening state finances and creating a sound budget, perhaps at the expense of local requirements. Nevertheless, his, and Rist's, reports are devastating in their picture of the irresponsibility of Rumanian financial administration, its slovenliness, and tendency to make increasingly complex and meaningless regulations.

13. Comparative figures in the International Institute of Agriculture's *Farm Accountancy Statistics for 1928-29* (Rome, 1932), show very little investment and very little debt for Rumanian farms as contrasted with those of other European states. These

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theless the peasant did have a burden arising from purchases of land 652 after the agrarian reform or from debts incurred for consumption, and it is necessary to emphasize that the size of the greater number of peasant holdings put their owners on the margin of subsistence. These debts had been contracted during years of rising prices and at a high rate of interest. When the depression came the debts, in many cases not used for productive purposes but merely to keep the peasant going, quite exceeded his capacity to pay. Thus, in 1931, the average indebtedness per hectare, in an investigation of 60,000 farms, was computed at 3,218 lei. Since for an indebtedness of 3,500 lei per hectare the interest averaged 700 lei per hectare, and the average gross income was 2,000 lei per hectare, 35 per cent of the gross income was absorbed by interest on debts.[14]

The figures for 1932 were even bleaker. In that year the number of debtors owning less than 10 hectares who applied for debt relief was 2,474,781 or 64 per cent of all small proprietors.[15] The total land owned by those peasants amounted to 5,696,000 hectares, or 60 per cent of the total of small properties. The total debt was 37.4 billion lei, 15,000 lei per debtor, or 6,585 lei per hectare. It may be concluded that the smaller peasants were the more involved in debt since by these figures the average size of properties under 10 hectares was 2.5 hectares, whereas the average size of the debtors' properties was 2.3 hectares. Of this debt 24.21 per cent was owed to popular banks and cooperatives, 43.58 per cent to private banks, 31.42 to private individuals, and 0.79 to other institutions. A League of Nations inquiry into agricultural credit in central and eastern Europe, made at about this time, found that in Rumania banks of agricultural credit charged 9–13 per cent; private banks 12–15 per cent plus a quarterly commission of 1–3 per cent; and private lenders from 12 to 22 per cent and even up to 30 per cent.[16]

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figures mean nothing statistically, however, as they cover only 68 Rumanian farms having an average area of 30 hectares; 30 of them are forest-farming combinations with an average area of 50 hectares. This point is worth mentioning only because Frederick Hertz, in his study, *The Economic Problems of the Danubian States* (London, 1947), p. 111, takes these figures as representative and expresses his surprise that in the depression the Rumanian peasant should have been regarded as debt-ridden.

14. Nicolae Cornăţeanu, "Effects of the Agricultural Crisis on Peasant Farms in Rumania," *International Review of Agriculture*, 22, No. 7 (Rome, 1931), 211E. In 1928 the gross income had been 6,000–7,000 lei, which would make the interest charge only 10–11 per cent.

15. G. Costanzo, "Credit Conditions and the Indebtedness of Agriculture in Central and Eastern Europe," *International Review of Agriculture*, 24 (1933), 283E; Madgearu, *op. cit.*, p. 83.

16. International Labor Organization, *Industrial and Labor Information*, 41, No. 1 (January 4, 1933), 22.

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In addition to the debts of small farmers, 15 billion lei were owed by debtors owning over 10 hectares (who had applied for debt relief in 1932), making a total of 52.4 billion lei of agricultural debts.[17] Some 17,000 middle and large proprietors contrived to run up a debt 40 per cent as large as that of 2½ million peasants. The size of the debt apparently increased with the size of the property: 524 debtors (those owing 5,000,000 lei or more), with average properties of 200 hectares, owed over 40 per cent of the total debt of proprietors of over 10 hectares. Moreover, the average size of property of debtors owning more than 10 hectares was 53 hectares, whereas the average size of all properties over 10 hectares (according to Ministry of Finance figures which appear to be those used) was only 30 hectares.

It would thus seem that the weight of the debt load fell upon the extremely small and the large properties, whereas the middle peasantry was less affected. That is, the peasant owning about 10 hectares was in a relatively good position to weather the crisis, a fact of only limited relevance, however, to Rumania. The figures also show that Rumania's agricultural debt was of two essentially different types: debts of the small peasants who were unable to create or maintain a self-subsistent holding in the ten years after the agrarian reforms, and the debts of the larger properties, which were probably suffering directly from the fall in world grain prices which hit them as exporters.

As the finances of the state were badly weakened by the depression, its power of direct assistance to agriculture was limited. Since the peasants' plight was a result of their debts and low prices, the obvious tasks of the government in Rumania and elsewhere in the Balkans were to support the price of grain, to try to obtain more favorable export conditions, and to provide for a conversion or moratorium of agricultural debts. These remedies did not represent any particular program but were rather specific measures passed under an increasingly severe situation with growing indications of peasant unrest.

By the time of Maniu's resignation in October, 1930, the agricultural crisis had become acute and there was growing agitation for a reduction of debts. Three prominent economists, Madgearu, Manoilescu, and Argetoianu, each published a plan for a readjustment of agricultural indebtedness; in each plan the state was to assume responsibility for part of the burden. Nothing was done at this time,

17. Constanso, *op. cit.*, p. 288E, taken from the Rumanian Ministry of Justice, *Conversiunea datorilor agricole* (Bucarest, 1932).

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partly because the plans required large sums of liquid capital, which 652 ● was not on hand.

The Mironescu National Peasant government attempted to improve the situation from the credit side. It undertook negotiations in Paris for an agricultural loan to provide for the establishment of an agricultural mortgage bank, a long-cherished aim of the National Peasants who hoped to facilitate thereby the transfer of agricultural debts into long-term obligations less onerous as to time of payment and rate of interest. Eventually agreement was reached on a second development loan, modeled after that of 1929, of 1.3 billion francs, of which 200 million was to go to the creation of the Agricultural Mortgage Institute and the remainder for railway, roads, and Treasury working capital. The loan met with much local criticism; there was general resentment at the continuation of foreign financial supervision which it entailed; the director of the National Bank fought the loan so stubbornly that the government was obliged to dismiss him; Titulescu and Argetoianu opposed the whole idea of borrowing foreign capital for a land bank at a time when such an institute could be only a palliative for the agricultural crisis. Indeed, the *Credit Agricol Ipoteca* was formed on the eve of the credit crisis which hit Europe in 1931.

In a final flurry of legislation, just before its fall, the Mironescu [65L] government passed two other measures designed to improve agricultural credit: a law to keep down the interest rate of agricultural credit institutions and a law against usury, prohibiting exaggerated rates of interest by private lenders. These laws, which were in the spirit of the National Peasant program, were altogether inadequate. The credit problem in Rumania was not to be solved by attempting to prohibit what was a secondary symptom. Like much Rumanian legislation, they were an effort to improve the weather by adjusting the dial on the barometer. Furthermore, they did not touch the question of the existing agricultural debt load which was becoming unsupportable.

In December, 1931, the chamber, with all major parties concurring, voted a moratorium for agricultural debts. From 1932 to 1934 appeared a series of laws for the relief of agricultural indebtedness. These laws, passed by successive governments in turn, were in part political measures and in part concessions progressively extorted by the deepening depression. As at the time of the land reforms of 1917–21, political competition plus popular pressure forced the parties toward more and more extensive measures. No party dared

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652 come out against debt relief when the more radical groups, including the irrepressible Dr. Lupu, were demanding a complete moratorium or a cancellation of debts. But if the necessity of relief was admitted, the methods were by no means agreed upon. Banks opposed debt cancellation as ruinous to future credit and as throwing a heavy burden on them. The state proposed relieving the banks of their losses, but this in turn evoked protests from foreign creditors who maintained that increasing the state's indebtedness contravened the loan agreements. The simple fact, of course, was that there was no solution that would hurt no one; against the damage to the credit structure had to be set the obvious inability of the peasant to pay his debts and the certain social dangers of undertaking foreclosures.

671 In April, 1932, the Iorga government passed a law by which debts of all properties under 10 hectares were reduced by half, the remainder to be paid over a period of thirty years at 4 per cent interest. Debts of properties over 10 hectares were to be diminished by the reduction of accumulated interest or by special legal procedure, if 60 per cent of the borrowed capital had been used for agricultural purposes. Although in 1930 Iorga had stated his opposition to assuming charge of the debts of the larger landowners,[18] the law framed by his government was immediately abused by the big owners, who employed it to slough off debts acquired, as it was said, on the green cloth rather than on the green fields.[19] The law also had the effect of increasing the demands of urban and other nonagricultural debtors.

653 In October, 1932, the Vaida Voevod government suspended this
671 conversion law and introduced a system of moratoria. To prevent misuse the debtor had to prove that agriculture provided 60 per cent of his total income, that the money borrowed had been for agricultural purposes, and that the debt did not exceed 20,000 lei per hectare of arable land.

This measure, which was largely a delaying action, was supplemented by the law of April, 1933, which abrogated the act of 1932 and granted a five-year moratorium with a 1 per cent interest charge. If the creditor offered a 50 per cent reduction of the debt the moratorium ceased to apply. In this case the remaining 50 per cent was to be paid off in half-yearly installments. Holdings between 10 and

18. *Adevorul*, September 9, 1930, cited in G. C. Logio, *op. cit.*, p. 170.

19. According to Logio, *ibid.*, pp. 170–171, the larger landowners were the most insistent that agricultural debts should be converted and were intended to be the principal beneficiaries. In his opinion the controls exerted over the peasants who took advantage of the law—the prohibition of mortgages and the direction of cultivation—would further undermine their position.

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50 hectares were also granted a five-year moratorium, with the possibility of the creditor offering a 33 per cent reduction in the debt. Holdings of over 50 hectares were granted a six-month moratorium and a possible reduction of 25 per cent of the debt. The debtor, if he wished, was permitted to abandon his holding, retaining one-fifth of it for himself, the remainder to go to meet his debts. The law was an improvement over its predecessor in scaling the provisions in accordance with the size of the holding.

A year later, in April, 1934, the Liberal government passed a new law whereby all agricultural debts without respect to size of property were reduced by 50 per cent, the residue to be paid in 34 half-yearly installments at 3 per cent interest. For payments in advance debtors were to receive a 6 per cent annual reduction on their debts. Debts paid off within two years were to benefit from a 70 per cent reduction of the total, those paid off in five years gained a 60 per cent reduction. While the creditor had a theoretical right to refuse conversion he was obliged to make a formal declaration of the fact and to accept a ten-year moratorium which could be prolonged for an additional five years. This law was more sweeping than its predecessors, especially in its pressure on the creditor, and it did provide the peasant with an incentive for a quick liquidation of his debt.

These laws, for all the political bickering which accompanied them, were a necessary consequence of the crisis and progressively extended the scope of conversion. They were negative measures, however; while they eased the peasants' debt load they in no way improved his basic situation or remedied the condition which had led to his plunging so hopelessly into debt.[20]

Besides reducing peasant debts, the governments of the depression years tried to maintain the price of grain and to secure favorable export markets. As with the other acts of those years, their efforts were hesitant and often inconsistent. During its period in office the Mironescu government had accelerated the National Peasant party's policy of removing the remaining export duties on agricultural products, and in April, 1931, it passed a law for the valorization of

20. Madgearu, while admitting that the Liberal law of 1934 had meant a benefit for all farmers, maintained that the peasant debtor was still in a sufficiently difficult position which excluded him from obtaining the credit necessary to rationalise his cultivation. According to his estimate, peasant credit available after the conversion was only one-seventh of what it had been before. He also pointed out that the peasants as shareholders in the cooperative banks lost 2¾ billion lei through the conversion. *Op. cit.*, p. 84. This, however, would not hit the poorer peasant who never had the funds to invest in the first place.

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652 671 farm products, aimed principally at maintaining the prices in the home market by the reduction of various charges and taxes. The Iorga government, however, at once superseded this measure by inaugurating in July, 1931, an export bounty of 10,000 lei for 10,000 kilograms of wheat and 16,000 lei for flour, the cost to be met by a bread tax. The government, however, discovered that it lacked the funds to carry out this measure and discontinued it in 1932. Moreover, it turned out to be largely for the benefit of the export houses rather than the producers and merely tempted Rumanian exporters to engage in wheat dumping. On the other hand the tax on bread, which was to pay the bount[illegible]s borne largely by the peasant consumer.[21] In 1933 and 1934 a different method was tried; the last Vaida Voevod cabinet set up a State Cereal Commission by which the government appeared on the market as a consumer to support wheat prices.

Like debt conversion, the price-supporting measures, which were taken up by the various governments in turn, were not the result of any over-all plan but were simply steps to counteract the depression. In fact, in their effect they ran against all plans for agrarian improvement. The parties, in their programs and writings, had all agreed that the future of Rumanian agriculture lay in intensive farming and in persuading the peasant to abandon extensive cereal cultivation for which his small holding was obviously ill-suited. The bounties on wheat had precisely the opposite effect and led to an even greater emphasis upon cereal production. Between 1930 and 1935 the area under wheat showed a definite, if highly irregular, tendency to rise.

439 648 The governments also undertook to obtain more favorable foreign markets. The first effort, under the National Peasants, was by means of collaboration with the other eastern European states in an agrarian bloc. Through the series of conferences in 1930 the agrarian states attempted to create a program of common action to gain preferential treatment from the industrial states for their agricultural products. Although the agrarian bloc pleaded its case at various meetings of the League and at international conferences between 1930 and 1932, it failed to open markets for agriculture. Its requests were opposed by the maritime states and overseas grain producers as contrary to free trade and the most-favored-nation principle. Madgearu, one of the most eloquent spokesmen for the bloc, declared that the agrarian states did not demand permanent preferential treat-

21. Manoilesco, *La Reconstruction économique et financière de la Roumanie et les partis politiques*, p. 284.

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656 To the protective tariffs, which were greatly increased in the 1930's,
457 was added the system of import quotas and restrictions, plus a 12 per cent tax for all imports. Together these provided a high protective wall for the development of the national industry. Their effectiveness is shown by the fact that between 1933 and 1938 the percentage of imports of manufactured and semimanufactured goods dropped markedly, whereas that of machines and raw materials rose sharply.[31]

Protection alone, however, was not the only device employed to aid the expansion of industry; other forms of assistance included exemptions from taxation, state subsidies, special transport rates, the obligatory use of certain locally produced goods, and monopolies granted to industries considered nationally desirable.

652 Since the inflow of new foreign capital stopped during the depression, the supply of capital for industry had to come largely from internal sources. In part this was achieved through the tariffs, which diverted purchases toward local industry, and by the increasing state expenditures for armaments, which amounted to a tax on the public. In 1934 a 12 per cent tax on the construction of new buildings was imposed in an effort to divert investment toward industry and away from nonproductive expenditures. To a considerable extent the foreign funds frozen in Rumania at the time of the depression were subsequently employed in industrialization.[32]

The political implications of this economic policy—which was by no means a plan but rather the result of the depression and the deepening international tensions plus the steady pressure of interested industrial groups—were very similar to those observed above in the

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rency stability or a price equilibrium, despite the relatively favorable balance of trade and rich resources, may be laid to bad management and political reasons, to which one could add that in many cases the measures taken were employed for purposes quite different from those for which they were presumably intended.

31. Madgearu, *op. cit.*, p. 252. Madgearu took a selected group of key imports and calculated their volume by percentage as follows:

	In per cent of total imports	
	1930	*1938*
Raw materials	5.86	12.82
Semifabricated	23.01	7.86
Machines	1.27	4.00
Manufactured goods	12.02	8.34

32. Oscar Jaszi, "The Economic Crisis in the Danubian States," *Social Research* (February, 1935), pp. 98–116, attributed a major role to captive capital in the creation of Rumanian industry. According to Madgearu (*op. cit.*, p. 353), foreign credit continued to serve those industries created by international capital, but in his opinion the most important source of industrial credit was the National Bank.

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case of Manoilescu.[33] The trend toward heavy industry was a forced development, carried on by monopolies subsidized and protected by the state—probably the only way in which such industries could have been created in short order. It did not reflect a growing individual domestic demand, as the state was the principal consumer for the new products. The increased industrial production was largely balanced by continued low imports. Thus, over the eleven years from 1927 to 1938, industrial production rose from 59 to 69 billion lei, but total industrial consumption fell from 93 to 88 billion because of a fall in imports from 34 to 19 billion lei.[34]

On the short run at least, and relatively if not absolutely, this forced development was at the expense of agriculture. Funds which might have gone into agriculture went into industry; the peasant as a consumer was obliged to pay high prices for industrial products. The relation between agricultural prices and the price of industrial products necessary to agriculture, which had dropped from an index of 100 in 1929 to 53.4 in 1934, climbed only to 63.9 by 1937. Clearly such a policy was exposed to opposition from an electorate consisting largely of peasants—if the representative parliamentary system functioned. The economic policy of these years by its very nature implied an extension of control over political activity. The Tătărescu regime was the last effort to carry on politics in the traditional manner, through a quiet perversion of the constitutional system, but the growing differences between Tătărescu and the old guard of the

33. An excellent example of the political and social implications of this industrial drive is to be seen in a resolution of a congress of the Rumanian Federation of Manufacturers, held in Bucarest on February 3–6, 1936. The congress considered the industrialization of Rumania necessary not only for the development of the country's natural resources but to provide employment and meet the requirements of national defense and the balance of payments. It demanded a stable system favorable to the development of industry; privileges on tariffs and railway rates; legislation requiring public authorities to obtain all their supplies from Rumanian industry; statutory recognition of agreements between industrialists having the object of "improving production and sales by lawful means." In the field of social legislation the congress demanded that employers should be relieved of all charges which did not correspond "either to the workers' real needs or to the capacity of Rumanian industry." Specifically, it proposed that representation of employers and workers in social insurance schemes should be proportional to the amount shared in their support, the repeal of payments to employees for the first seven days' illness, and the repeal of the employers' civil liability to an insured worker in case of accident. The supervisory rights of the Chambers of Labor should be limited to small manufacturers and they should not be permitted to "tyrannize over employers in large-scale industry." Finally, it demanded that the Federation of Manufacturers be consulted on all laws and regulations affecting industrial life. ILO, *Industrial and Labor Information*, 57, No. 13 (March 30, 1936).

34. Madgearu, *op. cit.*, p. 237. There was, however, a rise in imports between 1934 and 1937 from 13 to 19 billion lei, corresponding to the general economic recovery.

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subject of a number of heated disputes at international conferences, and it would be very difficult to make a reliable estimate.[24] That the drain was serious is indicated by the fact that as early as 1945 some Rumanian Communists, with more than the average amount of economic insight and less than the usual blind devotion to the Soviet Union, were in despair over the effect of the Russian withdrawals upon the country's economy and their own political position. The glaring contradiction between Russia's efforts to woo Rumania and to secure some measure of popularity for the Communist party and its rather frantic removal of goods and equipment has puzzled many observers. The explanation may simply be that the policy of this monolithic state was not consistent, or rather, that two different policies were here overlapping.

Rumania's foreign trade was greatly reduced after the war; by 1948 the value of its exports was only 50 per cent of the 1938 figure (in 1947, 21 per cent), and its imports 69 per cent (in 1947, 57 per cent).[25] The bulk of the trade was with the generally similar economies of the other eastern European states, which were being increasingly linked by a network of trade agreements.

The combination of low output, armistice obligations and war costs, and the general political uncertainty of the postarmistice months led to a fearful inflation. Rumanian currency had never been sound since the First World War and had showed a tendency toward inflation in the 1930's and the war years; between 1945 and the summer of 1947, when a drastic stabilization was achieved, prices rose to dizzying heights. The cost of living index increased from a base of 100 in 1938 to 145.0 in 1940, 413.9 in 1943, 3,678.7 in 1945, 46,140 in December, 1946, and 525,688 in July, 1947.[26]

24. At the time of the Paris Peace Conference the American delegate, Willard L. Thorp, complained that the Rumanian delegation had been of no assistance in supplying information on this point, but he estimated that the total cost to Rumania of its defeat would be about $2,000,000,000. As of 1946 he estimated that about $1,030,000,000 had already been transferred: $325,000,000 for the maintenance of occupation troops, $100,000,000 for reparations based on the 1938 price level, $178,000,000 for property restitution, and $450,000,000 for requisitions. U.S. Department of State, *Bulletin, 15*, No. 379 (October 6, 1946). In July, 1948, General Radescu, in exile in the United States, stated that since Thorp's estimate Rumania had paid an additional $735,000,000. *New York Times*, July 18, 1948. Some attempts have been made to relate these withdrawals to Rumania's national income, but both figures would by necessity be exceedingly uncertain.

25. United Nations, Department of Economic Affairs, *Economic Survey of Europe in 1948*, Table XVI.

26. Institutul Central de Statistică, *Comunicări statistice*, *No. 19* (Bucarest, January 31, 1948).

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manian industries, especially secondary industries. Both Russia and Rumania, however, are still industrializing economies and there seems to be little evidence, in the Rumanian case at least, of a desire to check the industrialization of the latter.[31]

The turning point in the economic policy of the immediate postwar period was the stabilization of the currency in August, 1947, which more or less liquidated the old financial structure and served as a vast economic leveler. On the fifteenth of that month, the leu was devalued (to 150 to the dollar) and the old money was ordered to be exchanged immediately at the rate of one new leu for 20,000 old lei. Peasants were limited to exchanging 5,000,000 lei; workers to 3,000,000; and other persons to 1,500,000. That is, at the official new rate, peasants could receive in exchange $1.67, workers $1.00, and others $0.50. Gold and foreign currency were entitled to full value but had to be declared under penalty of life imprisonment. This drastic measure, which came at a time of continued commodity shortages, inevitably caused widespread hardship. There were numerous reports of resistance by the peasants who felt as usual that they were being sacrificed to the benefit of the towns. The government hurled many charges of speculation and exchange violation, and part of the brutal behavior of the regime in the course of 1947 is to be associated with, if not explained by, this Draconian financial reorganization.[32]

Along with the tightening of political control the Groza government now entered a new phase of economic policy marked by the progressive nationalization of industry, collectivization of agriculture, and the beginning of economic plans. In 1947 pressure against private industry consisted primarily in assuming control over certain specific enterprises, supervising industrial activity, and making accusations of sabotage against foreign-owned concerns. At the beginning of 1948 Gheorghiu-Dej launched a general attack on private capital, which dominated industry, banking, and insurance: "Our democratic regime has been very patient with private enterprise, but private owners do not make capital investment, nor do they renew equipment. They transfer capital abroad and openly sabotage reconstruction." In January the concession of the Rumanian match monopoly to the Swedish firm (this concession had been granted at the time of the stabilization loan of 1929) was declared invalid and

31. See also below, pp. 327–332.

32. A defense of the stabilization, written by the National Bank, is published as "La Réforme monétaire en Roumanie, 15 août 1947," in *Les Archives internationales*, Doc. 694.

still abroad, was summarily dismissed. Peasant risings, a movement for autonomy in Transylvania, and general instability led to the nomination of General Averescu to office, owing to the reputation he enjoyed of being a strong man, having taken an active part in suppressing the peasant rising of 1907.

General Averescu's government passed the enactment dealing with the distribution of land to the peasants, while his Minister of Foreign Affairs, M. Take Jonescu, laid the foundation of the Little Entente by concluding alliances with Czechoslovakia and Yugoslavia. General Averescu attempted to open pourparlers with Russia, so as to prepare the recognition of Rumania's right to Bessarabia, and there was a fair chance of his succeeding, but he was baulked of his aim, for the King vetoed his plan.

To M. Titulescu was assigned the task of reorganizing the country's finances. This was deemed to be an intrusion into the special domain of the Bratianus[1], and so by provoking their hostility, brought about Averescu's downfall. M. Take Jonescu was his successor, but he was able to maintain himself in office only for a month. A government constituted by the Bratianu party followed in January, 1922, and remained in power until March, 1926. Owing to the disunion among the Opposition groups the Bratianu party was allowed to carry into effect its nefarious project of securing complete control of the economic resources of Rumania. The whole legislation passed during its tenure of office was of a purely economic character, and under the pretext of consolidating the finances of the country they merely consolidated their own financial dominance.

Popular dissatisfaction was steadily growing in the meanwhile, as instead of relieving the money stringency, the economic policy of the government did nothing but intensify the evil from which the country was suffering. On the other hand the Opposition was closing its ranks and organizing mass demonstrations throughout the country. A monster meeting of peasants was held at Alba-Julia in May, 1925, followed up by vigorous onslaughts against the government. The latter, unable to obtain a foreign loan which would have enabled it to stabilize the currency and relieve

[1] [The Liberal Party, headed by John Bratianu--Analyst]

[652] the economic crisis which had become endemic, sought to
665 withdraw for a brief period from office in order that popular
661 indignation might be appeased. As it had become obvious, however, that the Opposition, headed by the Transylvanian and peasant groups of the old kingdom aided by the Bessarabians, would sweep the polls and deprive the Bratianu party of the privileges it had arrogated to itself during its last tenure of office, the government manoeuvred to appoint in its stead a political group on whose subservience it could count. The choice fell on General Averescu, who could not pretend to independence of action owing to the numerical weakness of his group, and who was forced to act in leading strings held by the Bratianus on account of his absolute dependence on their support. As a consequence of the prevailing exasperation throughout the country it could be foreseen with certainty that it would be impossible to secure a favourable majority at the election following the exit from office of the Bratianus, even if use was made of the devices habitually employed on such occasions.

666 Before the dissolution of the Chamber, therefore, the
646 Bratianus passed a law reforming the electoral system then in use, which completely altered the very essence of democratic government. By the new system a party obtaining 40% of the total votes cast secured 70% of the seats in the Chamber, and thereby a party which did not possess the support of the majority of the electors might nevertheless secure an imposing majority in the Legislative Chamber. Through the passing of this measure into law, the coming to power of unpopular parties and royal favourites has been made possible, for owing to the malpractices and abuses current at elections, it is relatively easy in Rumania for any person in control of the state-machine to secure the requisite 40% of the votes necessary to ensure him complete domination of the Chamber.

666 In ordinary circumstances there would have been no necessity for this electoral law, since the public has usually a very wholesome respect for whatever party is in power, allowing it to organize the elections to suit its wishes, and permitting it to exert a dominating influence on the polls so that it may be said that the elections are always " made."

state administrations a certain degree of autonomy which, effectively amputated the central government of many of its prerogatives, and having filled these administrations with their own partisans they still exerted an influence which could, if necessary, paralyse the governments destined to succeed them in office.

In his electoral manifestoes, Averescu had held out to the Rumanians the most seductive inducements, among others that of a flow of foreign capital into the country. Time passed, however, and so, without any sign of an impending materialization of these assurances, the public began to chafe and inveigh against him. The resentment which the Liberals had aroused against themselves was thus deftly diverted on to the heads of their successors. This result having been duly effected, the Liberals emerged from the seclusion they had hitherto voluntarily imposed on themselves, and now appeared on the scene in the guise of indispensable factors for the restoration of the order and legality so grievously compromised by their incompetent henchman! The King was induced to demand General Averescu to form a coalition Ministry, but after a fruitless effort he was summarily dismissed and replaced by Prince Stirbey, who a fortnight later retired, making way for a Bratianu Government, so that the transition might not appear too brusque.

King Ferdinand died in July, 1927, and as the crown passed to his grandson, Michael, a boy of six, a Regency Council was nominated. Ferdinand's son, the notorious Prince Carol, had been excluded from the throne owing to Ferdinand's conviction that Rumania's prestige would suffer if a person with Carol's record became King. A similar opinion seems to have been held by our Foreign Office, for when Prince Carol came over to England in 1925 he received a polite but firm request to leave our shores.

Unhappily for the Liberals, their leader, John Bratianu, died suddenly in November, 1927. His was a strong willed and dominating personality, capable, but not over scrupulous in the choice of methods. The leadership then passed to his brother, who until then had been Minister of Finance.

The rising storm of popular exasperation caused by the financial policy of the Liberal party, which had brought the

country to the verge of a catastrophe, proved, however, to be too much for the less experienced hands of Vintila Bratianu. Unable to secure a foreign loan, the need of which had become imperative, he had no choice but to allow the transfer of the reins of power in November, 1928, to the Opposition, represented by M. Maniu and the National Peasant party. The elections which followed took place in freedom, and though this time the minorities did not all vote for the government, nevertheless the latter secured for itself about 78% of the total number of votes cast, which may be taken as an infallible proof of its popularity. This assured it of a compact majority of 348 seats in the Chamber. The Opposition was insignificant, and was composed of sixteen Magyars, thirteen Liberals, and ten seats distributed amongst various groups. This election disposed of the fiction that Communism had a hold on the Rumanian people, for the total Communist vote attained only 35,000 out of a total of 2,840,660, and it thus became evident that the bogey of Bolshevism had been cleverly exploited by the Bratianu dictatorship, in order to justify its terroristic methods in Bessarabia, as well as for the purpose of winning the goodwill of the Western Powers for its alleged attempts to repress it. The most pressing need the Maniu government had to face was the obtention of a foreign loan in order to avoid the certain catastrophe with which the finances of the country were threatened. The funds obtained, however, barely sufficed for stabilizing the currency, and were altogether inadequate for the task of reconstruction, and even for the purpose of paying off the most pressing debts left by the former régime, so that a further loan had to be secured in 1931.

Unfortunately the country was in a derelict condition, and with the banking institutions under the control of its adversaries, determined to undermine the work of the new government, the latter had an exceedingly difficult task to tackle. The government passed several liberal measures, such as the suppression of the censorship, the abrogation of military law in Bessarabia, the reduction of the personnel of the gendarmerie (chiefly employed by Bratianu for dragooning the population at election times), and set about

645 functions have been left undisturbed. We have a plethora
645 of functionaries drawing starvation wages instead of a body of well-selected officials decently rewarded. You who have no party and no party attachments to satisfy, and who always attacked political parties, might have effected this change easily, but you have not done so. The reductions in the Budget were necessary, yet they ought not to have cut into the very vitals of the country. The financial policy of M. Argentoianu may be qualified as the policy of bankruptcy. No institution, however strong its foundations, can resist it. You have destroyed the schools and disorganized the army by a criminal reduction of credits. In the name of the Liberal party I must affirm that we cannot accept a constitutional theory which, if it be applied, will debilitate our political life, and by the elimination of political parties vitiate the expression of the national will in its essence, expose the Crown dangerously to attack, and even provide the possibility of irremediably compromising it."

871 The indictment with regard to the schools found in the
652 above rebuke refers to the decision taken by the Government to shift on to the municipalities 50 per cent of the educational charges. As the Municipal authorities cannot balance their budgets, and as an example the community of Solca was cited, which with a total annual budget of 430,000 lei would have been obliged to incur an additional expenditure of 400,000 lei in order to provide for the maintenance of its primary school, the deputies admitted that such charges were beyond the resources of the municipalities to bear, and the proposed legislation was at last rejected after a most strenuous opposition from the National Peasant Party supported by the Liberal deputies who had hitherto sided with the Government.

871 Another cause likely to prejudice education in Rumania
875 is the non-payment of salaries to teachers. During the sitting of the Chamber on April 4th, 1932, a case was reported of certain teachers, who are all State functionaries in Rumania, who had not received their pay for seven months. Associations of teachers in various localities have called meetings and have addressed telegrams of protest on the subject to the King. Thus, those of the region of Radauți on

May 7th, 1932, solicited the King's intervention, and demanded that their emoluments, already four months in arrears, should be paid. Those of Balți appealed to the Press on the same date, complaining that nothing had been paid them during the last five months. A general strike of the members of the teaching profession is being talked about if a remedy is not found. They are incensed by the fact that while public money is being squandered on useless objects and worthless individuals at Bucarest, humble functionaries in the provinces are left to famish.

The "Adeverul" of Jan. 19th, 1932, takes the Government to task for paying regularly its superior functionaries and neglecting the lower grades as well as its pensioners, and proceeds to relate particulars as astounding as they are scandalous, namely details about famishing teachers who are forced to beg for morsels of bread from their pupils! Such facts are really staggering, and when one recollects that France is generously advancing in instalments a loan of over one hundred million francs for the exclusive purpose of enabling the Rumanian State to pay its functionaries and pensioners, one demands what has become of this money and whether these funds have not again been diverted in the habitual manner to other purposes or pockets than those destined by the original providers of these sums?

The inept waste of public money at this critical period is simply revolting. The press daily reveals cases of gross extravagance and profligacy, while in the Chamber it has been admitted that the State keeps in its employ over 50,000 redundant functionaries. The "Argus" of May 5th, 1932, for instance, points out that the Ministry of Commerce and Industry maintains without any justification a sub-secretariat with a personnel of 116, among whom are twelve solicitors, one architect, one doctor of medicine, 14 chiefs of sections, etc, at an annual cost of 15,176,900 lei to the State, while on April 1st, 1932, the paper condemned at length the waste involved in the maintenance of a Faculty of Medicine at the University of Bucarest with a staff of 400 professors and assistants, while the total number of students matriculated to this faculty reached barely 900.

The paper likewise affirmed that there was a scandalous

647 652 prodigality displayed in the lavishing of big salaries on certain functionaries occupying inferior posts, salaries which were altogether disproportionate with their functions, and that this form of favouritism was rampant in every administration. These remarks of the "Argus" are certainly not amiss, and it could be added that the faculty of Law has a greater number of Professors than the corresponding faculty of the Paris University. In its issue for the 14th May it criticizes the War Ministry for undertaking the construction of an arch of triumph in Bucarest, a matter which obviously is not one of pressing importance. The same could also be said about the Royal Palace at Bucarest, which is being enlarged and renovated. The "Curentul" of 6th May, 1932, discloses that the State maintains a school of gamekeepers at an annual cost of 1,512,000 lei and demands its prompt closure. In its issue of May 19th, 1932, it virulently condemns the Government for allowing fifty of its parliamentary supporters to undertake a voyage of relaxation to Constantinople, Jerusalem and Cairo, during the Easter holidays of 1932, at the expense of the State. It may be remarked that Rumanian governments often recompense their partisans by attaching them to various missions sent abroad so that they may enjoy free trips. Thus at the recent Balkan Conferences it was remarked that the number of Rumanian delegates often equalled the joint numbers of Albanian, Bulgarian, Greek and Yugo-Slav representatives. The "Dreptatea" of May 19th, 1932, takes the Government to task for not paying its functionaries, yet finding some 800,000 lei for the purchase of books for the public libraries, and delegating to Paris two public functionaries at a cost of 40,000 lei for making the purchase of the said books from a French publishing firm.

The "Argus" of May 6th, 1932, in a leading article insists that this costly and luxurious organization with which the Rumanian State has been endowed should be got rid of, and order and sobriety introduced, for otherwise neither loans nor assistance from without will be of any use. In 1929 and 1931, 24 milliard lei were borrowed; of this sum almost nine milliards were absorbed to cover previous deficits, and yet to-day, assures the "Argus," Rumania is no better off.

THE POST-WAR PERIOD

There is a deficit of five and a half milliards left over from the years 1930/31, and of 1,100 millions arising from the first three months of the current year. In all, a deficit of six and a half milliard lei, which is entirely due to bad management.

To these budget deficits should be added some ten milliard lei, owing by the State to various local contractors and industries, the non-payment of which has caused an enormous prejudice to the internal economy of the country, since these enterprises, having all their liquid funds "frozen up," have been obliged to stop their activities and dismiss their staffs, thereby intensifying the crisis.

The legislation recently passed by the Government has also had a most unfortunate repercussion on the general situation. Thus the law sanctioning the cancellation of agrarian debts has resulted in the ruin of almost every bank in the country, for, with a few rare exceptions, all have directly or indirectly advanced money to agriculturists, who by this law, promulgated in April, 1932, are dispensed from their obligations to the extent of 50 %, while the remaining 50% is rendered recoverable within 30 years. No compensation whatever is granted by the State to the banks or to private individuals who had been unfortunate enough to have advanced money to the peasants, even on the security of a mortgage. The result is that almost every banking institution and thousands of people have been ruined at one stroke.

This measure has not met with the general approval even of the peasantry, for the most prosperous and enterprising among them, who naturally had placed their savings in the banks, have thereby lost their money, since all the rural banks have been rendered insolvent. The total cessation of all credit, which has naturally followed the suspension of banking operations in the rural districts, has caused immense loss to the farmers, who can no longer borrow money even for their most pressing needs. Another law, that of the so-styled "Liquidation Judiciaire," completes and intensifies the evils fostered by that of the "Concordat preventif," rendering all commercial debts practically irrecoverable without the condescension of the debtor. Such measures are

indicative of the complete chaos which prevails in the minds of those at the helm of the State, and who, seeing the *impasse* to which they have brought the country, appealed to France to send a mission of financial experts to devise means whereby Rumania may be extricated from the morass in which she has been entangled. This mission, headed by M. Rist, former adviser to the Rumanian National Bank, has arrived at the end of April, 1932, and is preparing a report which apparently is to recommend a drastic curtailment of the government staffs, and a reorganization of the tax-collecting system. Though exceedingly discreet, these advisers could not help expressing their astonishment at the bungling methods obtaining, and several higher officials in the Ministry of Finances have been summarily dismissed in consequence of their gross incompetence. Surprise, too, has been expressed at the number of officials employed in the Ministries of War and Public Instruction, 33,533 and 82,821 respectively, staffs more numerous than in the corresponding institutions in France, a country noted for its bureaucratism. The activities of these foreign advisers, who, after all, had been invited to come, and who are rendering a signal service to the country, have given rise to an outburst of xenophobia which is truly surprising. The press, with a few rare exceptions has protested against this immixture in the internal affairs of the State, which it pretends to regard as an affront to the national dignity, and has not wearied of insisting that Rumania should desist from paying her external debt service, which absorbs some six milliard lei per annum. Such a solution seems natural for a State which condones the annulment of all pecuniary engagements of the most numerous class of its citizens, as is provided in the law concerning the cancellation of agrarian debts. However, the Government seems unwilling to go so far, and it declares on all occasions that it will fulfil its foreign obligations in spite of the heavy sacrifices this decision may entail. Already it has taken the cue given by the French experts, and promptly dismissed five Under-Secretaries of State, early in May, 1932. The fall of the Tardieu Cabinet, which seemed disposed to extend a loan to Rumania on certain conditions, may now induce the Rumanian government to retrace its steps to a

certain extent, as apparently the new French government will be less inclined to make financial advances. Nevertheless the Cabinet will hesitate to assume the responsibility of openly defaulting, lest such action should be resented by France and to a lesser extent by England, and bring about Rumania's political isolation in face of Russia. So that, strange as it may seem, the dread of the Bolsheviks may contribute to the respect of engagements, the repudiation of which would be applauded by the latter.

The press organ of General Averescu, the "Indreptarea," in its issues of 12th and 18th May, 1932, contains some interesting comments on the findings of the French experts. It thus affirms that the experts have ascertained that there is a lack of control in the handling of the public funds, that there is a great redundancy of officials, and that huge frauds are committed at the expense of the State revenues. As an example, the case of the revenue from the Customs was given, which was estimated at 1,200 million lei, yet only yielded 400 millions, the balance of 800 millions having been fraudulently diverted to other pockets than that of the State. M. Rist, affirms the "Indreptarea," had recommended a compression of the expenses through the dismissal of a large number of functionaries, and the creation of a control of all payments made to the State so as to eliminate the numerous frauds to which the Budget deficit is principally due. If these reforms were effected, Rumania, according to M. Rist, could fulfil her external obligations. However, the findings of the experts were not likely to enhance the prestige of Rumania in Paris and it hardly seemed likely that the French would now keep their promise made to M. Argentoianu to give pecuniary assistance to Rumania, unless they were allowed to exert a control which would be tantamount to applying to Rumania the status of what in its essence would be a colonial dependency. Such measures, if their acceptance were advocated by the Government, would weaken its prestige to such an extent that it could no longer maintain itself in power, even if it enjoyed royal support. The weakening of its authority was manifested by its decision not to allow the holding of municipal elections which were to take place in

668 resound from the province across the Carpathians are not isolated. The whole country is agitated by this discontent which may explode at any moment."

The above statements should not be taken as outbursts of spite, for even in official publications, such as the bulletin of the Constantsa Chamber of Commerce, we come across similar pronouncements: "We are facing a complete economic disaster. All the productive forces of the country are exhausted. All private savings lent on credit are lost owing to general insolvency. The State is unable to collect even one fourth of the direct taxes it imposes. We have arrived at this state of affairs owing to the irrational financial policy of post-war governments . . . . . Great mistakes were committed, and this fact should be admitted before we start on the right path. Many of our rulers were incompetent and dissipated, not to say that they acted as profiteers." (February, 1932, p. 23–26.)

645 [652] Since proofs were submitted the following events have occurred in Rumania:

Owing to the growing discontent among public functionaries, pensioners and officers at their not receiving their pay, the King felt constrained to enjoin the Cabinet to satisfy forthwith the legitimate claims of these public servants. The government, unable to comply with this behest, tendered its resignation early in June, whereupon the King once more convoked M. Titulescu to Bucarest, and bade him form a coalition cabinet. M. Titulescu's efforts proved again fruitless; for while the National Peasant Party did not refuse its co-operation, the Liberal Party asked that it should be entrusted with a mandate to form a government, as it pretended to be strong and capable enough to deal singly with the situation.

666 As, however, no party possessed a majority in the Chamber, it was decided to dissolve it, and to appeal to the electorate. M. Vaida-Voevod, who is known to be strongly opposed to gerrymandering, and other electoral abuses in vogue in Rumania, formed a provisional government to supervise the elections. These were held in July, and the

National Peasant Party, though it polled less than 50% of the votes cast, secured 272 seats against 114 won by the Opposition. (The Liberals obtained 28, and the section of the party led by M. G. Bratianu, 14 mandates.) 666

M. Vaida-Voevod having discharged the duty assigned to him retired from office; but as the National Peasant Party possessed a working majority in the newly-elected Chamber, it was called upon to assume power. The Opposition attempted to challenge the right of the National Peasant Party to govern the country owing to the smallness of the poll it secured at the elections, though it was the Liberal party itself, now heading the Opposition, which introduced the law conferring a majority of seats in the Chamber on the party which would poll 40% of the votes. 646

M. Maniu was besought by his partisans to resume once more the premiership, but after several interviews with the King, declared himself unable to do so. He recommended, however, M. Vaida-Voevod to undertake the task, and accordingly a Cabinet headed by the latter was formed which includes both M. Mihalache and M. Madgearu, and other prominent members of the party. The government thus formed proceeded to secure a loan of 50 million swiss francs, wherewith to pay its officials for the time being, and to publish its program, which in the main lines aims at: Reforming the present electoral law, reintroducing administrative decentralization, and reorganizing the railway administration. Equitable treatment of minorities is promised, as well as a modification of the law concerning the conversion of agrarian debts. At the same time State finances are to be reorganized with the co-operation of the League of Nations. 645 652

This last plan, however, will not work out so smoothly, for the Opposition will do its utmost to stir up popular feeling against it. Even when two League delegates arrived in June, 1932, to examine the economic situation, the Press was unanimous in deprecating this public investigation and treating it as an offence against the country's dignity. The most widely read paper, having a daily circulation of some 40,000 copies, appeared with a leading article entitled "the day of shame." 652 648

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652 Though there may be nothing derogatory in foreign supervision of Rumanian finances, Rumanian politicians will insist on decrying it as an affront to the *amour propre* of their country, because such control will prevent them from embezzling public funds. However, one may well question whether the League of Nations is the most suitable authority to take in hand such a difficult task after its lamentable failures in Bulgaria and Hungary, where the proceeds of the loans raised under its aegis served mainly to bolster up reactionary governments. After such a disastrous experience—at least so far as British subscribers to these loans are concerned, who have lost two thirds of their capital—it is doubtful whether the League of Nations would again venture to appeal with any hope of success for funds on behalf of its prospective ward. All the more so, since the League is not cut out for dealing with such a mendacious and elusive body of political mountebanks as it will have to transact business with in Rumania. M. Maniu's refusal to reassume the premiership is to be interpreted as a failure on his part to secure from the King implicit assurances that constitutional practices would not be tampered with again, so that the League will not know whom it will have to face when the National Peasant Party is once more turned out of office. It would be better apparently if this formidable job of cleansing Rumania's Augean stables were tackled by a single country, like France, which owing to its ascendancy as an ally, could exert the requisite authority. If the French were given a free hand, they would see at least that their money served its purpose, and they would take adequate precautions to counter-check effectively all the evasions and underhand manoeuvres in which Rumanian politicians are past masters.

661 to be paid during the year. Nevertheless the Ministerial Council had decreed that the amount payable should be reduced by yet another 110 millions. This was considered unfair, all the more so since the critical condition of the pension fund is due to the fact that a mass of politicians having no right whatever to pensions have been awarded very generous ones, while men who had devoted their whole life to the service of the State ran the risk of dying of hunger.

The Bank of Industrial Credit.

652 The "Cuvantul" of 11th March, 1929, published an article revealing the unsound character of the expedients which are occasionally resorted to in order to secure temporary alleviation for the Treasury, and some of the results of this policy.

"The management of the public finances was so irregular during these three last years that the State was obliged to conclude a foreign loan in order to pay its debts to local contractors. This was not only a period of financial insincerity, but also one in which the conception of honestly meeting one's pecuniary obligations was undermined. The bad example of the State proved contagious to commerce in general. The "Industrial Credit" was created to enable the National Bank to obtain relief from a mass of bills that found their way to it to be rediscounted at a time when the State had obtained the maximum amount of credit from local industry, and when the latter was no longer in a position to pay the excessive interest on State debts which the banks insisted on charging when discounting the said debts. The irregular payment of State debts created other inconveniences. Local industries, to protect themselves from being ruined, were obliged to increase the price of the articles supplied. The cost of materials furnished to the State was thereby very sensibly increased. To prevent foreign industrialists from under-selling local producers, who were thus forced to sell their products at inflated prices, it became necessary to impose excessive protective duties, the burden of which fell ultimately on the inarticulate masses."

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652 The first pressing task which the Government had to face[1] was the unification of the currency. It was decreed that the 457 roubles circulating in Bessarabia, and the Austro-Hungarian crowns hitherto used in Transylvania, Banat, and Bucovina, were to be exchanged against Rumanian lei, at the rate of one lei per rouble and one lei per two crowns. It had been roughly estimated that the amount needed for the conversion of these roubles and crowns would be approximately 2,500 million lei. Unfortunately, owing to the dilatory fashion in which the redemption of these foreign currencies proceeded, it became possible for smugglers and speculators to introduce into the country huge sums of these notes from the adjoining States, since the announced rate of exchange in Rumania was far above the intrinsic value of these notes in their respective countries of origin. Of course, this vast fraud was only rendered possible through the connivance of politicians and functionaries, but it resulted in a net loss to the State of some 5,000 million lei. For the conversion of these roubles and crowns, instead of the 2,500 million lei originally estimated, absorbed a sum of over 7,000 million lei. A similar fraud was perpetrated in the case of the notes issued by the Banca Generala during the Austro-German occupation. Further quantities were introduced clandestinely into the country from Germany. Though the original notes had been re-stamped by the Rumanian Government, this proved no deterrent to the smugglers, who with great ease proceeded to forge the Rumanian special stamp and affix it to their notes before putting them into circulation. These notes of the Banca Generala were secured by sums deposited in the Reichsbank, but, owing to the depreciation of the mark, the Germans took advantage to contest the Rumanian claim for the return of these deposits, offering as a pretext that they were in marks and had therefore become worthless.

The unification of the currency was completed by the end of 1921, the State assuming thereby a formidable financial burden which very seriously undermined the stability of its currency. Besides the loss caused by the redemption of these unsecured notes, the State had to reckon with the forfeiture of 315 million gold lei belonging to the reserves of

[1] [after World War II -- Analyst]

the National Bank which had been removed during the War for safety to Moscow, and which the Bolsheviks now refused to return.

Another factor which further militated against a quick recovery was the state of utter destitution in which the Germans had left that part of the country which they had occupied, and which they had taken care to despoil of everything of value that was removable. Production being utterly disorganized, the requirements of the population had to be satisfied by mass import from abroad, which necessarily caused a drain on the exiguous gold reserves. This, coupled with the fiduciary increase necessitated by the redemption of the roubles, crowns, and banknotes issued by the Austro-Germans, depreciated steadily the Rumanian currency between 1919 and 1926.

Yet another cause which retarded the economic recuperation of the country was the agrarian reform, which during its initial stages naturally disorganized production, and imposed on the State a huge load of debt due to the necessity of providing funds wherewith the former owners of the land might be at least partially indemnified. All these causes contributed to the inflation of the fiduciary circulation, which from 4,431 million lei at the end of 1919 passed gradually to 20,126 millions in 1926, causing a corresponding depreciation of the leu, which, from its pre-war parity of five leu to the dollar, passed to 55 in 1920, 86 in 1921, 150 in 1922, and to as much as 220 in 1926. Since that date it has steadily improved until its stabilization in February, 1929, when the rate was fixed at 167 to the dollar or 31 lei to one Swiss franc, or 81.359 lei to the (gold) pound. This instability of the currency that had lasted until 1929, had created an atmosphere of uncertainty extremely detrimental to commerce and industry, and had seriously retarded their revival. And the precariousness of the situation was further accentuated by the serious budgetary deficits during the years 1919–1922. If it be remembered that during these years Rumania was confronted by other serious problems, the solution of which demanded an immense outlay incommensurate with the resources of the country, it must be admitted in fairness to the Rumanians that in spite of the very inade-

652 quate means at their disposal they yet succeeded in achieving a certain measure of success, and notwithstanding the tremendous difficulties with which they had to cope. Some of the issues demanding attention were the reorganization of the administrative machinery in the newly-annexed territories, the complete overhauling of means of communication, the readjustment of agriculture, the reconstruction of the oil industry, which had greatly suffered during the war, and the necessity of providing for the needs of the army owing to the exposed geographical position of the country.

RUMANIA'S ECONOMIC POLICY

186 454 Until the advent to power in 1928 of the National Peasant Party under M. Maniu, the policy of the country was inspired by an uncompromising nationalism that tended to the complete exclusion of foreign capital so necessary for the development of Rumania. The chief instigators of this policy were the late brothers John and Vintila Bratianu, who had raised the maxim "prin noi insine" (by ourselves alone) to the sanctity of a religious dogma. The governments that had succeeded each other since the conclusion of the war, with the exception of the one presided over by M. Vaida-Voevod, were either formed by the Bratianu, or so-called Liberal Party, or by some nominees of theirs who were quite amenable to their views, so that a certain sequence in the policy pursued may be detected throughout this period, in spite of the change of persons at the helm of the State, while any divergence in their pronouncements from the original programme may be explained by the desire to allay the mistrust engendered by the Bratianu policy. The principal aim of this policy was the attainment of self-sufficiency through the industrialization of the country. This found expression in extensive legislation dealing with the development of national resources, the chief enactment being the special mining law promulgated in July, 1924.

382 471 315 The subsoil resources had already been declared national property, and the special mining law, which was aimed par-

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victions to those of the prevailing party in power, but with all the extreme brilliancy of his argumentation he will hardly shake the convictions at which one arrives concerning the results of Protectionism in Rumania, and which may best be summarized in J. Novicov'c pronouncement on the subject: "*Le système protecteur est une spoliation mutuelle autorisée par la loi . . . il est non seulement une spoliation mutuelle des citoyens d'un même pays, mais une spoliation mutuelle des citoyens de tous les pays. . . . Tout gaspillage dans les frais de production diminue la masse des richesses existantes et par consequent la masse du bien-être general. . . .*" (*Luttes entre Sociétés humaines*, p. 208.)

In a lecture M. Manoilescu delivered in Bucarest during January, 1932, under the auspices of the Rumanian Social Institute, he still harped on his favourite theme, namely, that Rumania was exchanging the labour of 600,000 men engaged in agriculture for that of 60,000 men engaged in industry and that this was the source of Rumania's wretchedness. The Russian Five-Year Plan seems to have been obsessing his fancy, for he exhorted his audience "to draw inspiration from the methods of others so as to apply them in their own midst under a controlled economic system," assuring them that "the industrialization of Rumania would invigorate its agriculture to such an extent that the latter would be able to absorb the products of its industry. . . ." According to him an agricultural people could develop only if it pursued the fostering of its agriculture parallel with its industry, as had been demonstrated by the example of Russia. It is difficult to gauge the impression created on Rumanian intellectuals by M. Manoilescu's fine spun and twisted logic, but his advocacy of applying Russian nationalization methods to Rumania is undoubtedly an example of the attraction the former country is beginning to exert in the Near East, and the gradual dispelling of the misgivings that were once entertained about Russia's economic future.

STATE FINANCES

On the attainment of her independence Rumania was obliged to endow her economic organization with the necessary equipment. Owing to the primitive economic condition

● 657 in which she subsisted it was impossible for her to provide out of her budget the requisite means for the construction of roads and railways, ports, etc., and she therefore began to seek foreign loans in order to finance these productive works, which of course could yield no returns for some years. The State budget, therefore, was burdened at first with heavy charges on these loans while it derived no corresponding revenue from the expenditure involved. This will explain why, up to 1905, the budgets closed usually with a deficit. From 1905 to 1914, however, the situation changed, and every year showed a surplus varying from 41 to 110 million gold lei, a sum that represented about one-fifth of the total budget revenue. This favourable state of affairs naturally changed radically after the war. For the period 1919 to 1922, though the budgets did not contain any provisions for the service of the national debt, they nevertheless showed an excess of expenditure over revenue that was alarming. These budgetary deficits were covered by an increase in the fiduciary circulation that naturally tended to depress still further the value of the national currency. The steady depreciation of the leu rendered the balancing of the budget an exceedingly difficult process, as it was impossible to estimate beforehand the exact amount of expenditure which increased as the leu fell, seeing that the State had to make payments abroad in gold, while the revenue was also adversely affected owing to the losses suffered by tradesmen through currency depreciation and its inevitable corollaries—curtailment of credit and abnormally high rates of interest.

From 1923 onwards the Liberal Party attempted to put some order in the national finances, and by a drastic policy of compression it managed apparently to balance the budgets. There were many who condemned this policy of excessive economy that tended to cut down all expenses, even on items that were essential for the development of the country's resources.

The Bratianus' economic policy was inspired by two main principles. One was doing without foreign aid, and the other that of achieving the revalorization of the leu, two aims that mutually excluded one another. The revalorization of the leu was to be achieved by balancing the budget, and the

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method adopted was to cut down expenditure indiscriminately. Essential credits for the maintenance and repairing of roads and railways were drastically curtailed until the means of communication became almost useless. The salaries of State functionaries were reduced to an extent which no longer sufficed to keep them alive, and consequently the public service became completely disorganized and corrupted, for the functionaries had, after all, to make up for the inadequacy of their emoluments either by indulging in peculations or by accepting bribes. The rabid xenophobia of the Bratianus was in no way shared by the thinking public, as may be inferred from the following article published by the *Argus* while they were in office:

"From our first appearance in history until the present moment we have done nothing but change masters, and nevertheless we have not perished. Why should we not appeal for help to the capital reserves of civilized States so that we may raise ourselves to their level? Instead of copying Western civilization we have, after the war, pursued an economic policy which has placed us in a situation parallel to that of Russia. We have broken up the large estates in order to create small rural holdings without practically indemnifying the owners. In Russia the same thing was done without any indemnity being paid. We have severed our commercial relations with Germany without creating new ones. We have placed the control of the nation's economic life in the hands of the State. We have concentrated public wealth in the hands of a minority. We have disorganized the system of transport. All these measures have been applied in one form or another in Russia, but nowhere else in civilized Europe. We are determined partisans of Western civilization as we are conscious of the necessity of orientating ourselves after the ideals of the West and not those of the East. The policy of abusing and vilipending foreign capital is due to a misunderstanding. The modernization of our State with the aid of foreign capital is an indispensable and vital necessity. The economic decadence of our people brought about through this policy of isolation will bring about the decadence of the State organism. A weak State will not secure immunity from the Bolshevik bacillus. If we

652 do not assimilate our conditions and life to those of the West we shall be forced to assimilate them to those ruling in the East. We must emphatically reject such an ideal. . . ."

By 1928 this policy had brought the country to a complete deadlock, and foreign financial aid had to be appealed to in order to get it out of the *impasse* into which it had been driven. Not only trade and industry had been brought to a standstill, but the public treasury was also in desperate straits through the disorder and dissimulation that had been practised. The much-advertised budget surpluses of 1924 and 1925 were found out to be fictitious, and instead they left a deficit of three and a half milliard lei to be dealt with, while the year 1928 was threatening to close with a deficit of 6½ milliards.

The National Peasant Party which came to power at the end of 1928 secured two foreign loans in 1929 and 1931, of a total amount of 24 milliard lei. They were used up in the stabilization of the currency, the paying off of pressing debts, and the liquidation of budgetary deficits, while a small part was earmarked for the improvement of the railways. Owing to the prevailing maladministration, the loans failed to restore the economic situation of the country, and, as the *Argus* of May 6th, 1932, declared, "to-day, barely three years since we contracted the loan of 1929, we are as badly off as we were before we borrowed the money, for we have to face 6½ milliards of deficits due to our bad management. . . ." The situation, unhappily, is far worse than may be inferred from the above statement. For the policy of dissimulation and insincerity in public accounts which was constantly practised, in order to conceal expenditure of public money on unjustifiable purposes, has led to an accumulation of a huge deficit of some 21 milliard lei. Thus, between the budget revenue forecasts and the actual receipts there is a tremendous deficit of 6,583 millions in 1928, 682 millions in 1929, 6,295 millions in 1930, and 7,370 millions in 1931, and it may be added that the current year 1932 will also close with a deficit of at least some 6½ milliard lei. This policy of making exaggerated revenue forecasts was dictated by the desire to justify expenditure on certain heads of the budget which might have been reduced or suppressed.

STATE FINANCES

It is true that a drastic retrenchment was effected in the expenditure of 1931, and that the whole 35,305 millions provided for were not spent, so that the difference of 7,370 millions between the revenue forecast and the actual revenue will not correspond to the real deficit for that year, which will be smaller than that figure. The 1928 budget deficit, too, was partly covered by the proceeds of the 1929 loan, but these modifications will hardly alter the desperate situation which the Rumanian Exchequer has reached, and owing to which the salaries of State functionaries are in many cases seven months in arrears. For besides the budget deficits, there are some 10 milliard lei which the State owes to contractors, outstanding Treasury bills of an approximate value of one milliard, and various sums the Exchequer has borrowed from autonomous public institutions such as the Pensioners' Fund, Savings Banks, Chambers of Commerce, in order to face certain pressing needs. No real estimate of these sums can be made owing to the unparalleled confusion reigning in the public accounts, which are deliberately doctored in order to cover up the malversations and the continuous dissipation of public money. What is even more serious is the multiform nature of the guarantees the State has given concerning the debts contracted by the various autonomous administrations such as that of the Monopolies, the Railways, etc., as well as the charges it has explicitly assumed towards other establishments. Thus it is estimated that the guarantee extended to the National Bank, securing it against losses through the application of the law concerning the cancellation of agrarian debts will involve the State in a loss of at least some 5 milliard lei, and this is not the only loss the State will incur on this head, for similar commitments were entered into with various other establishments. Such squandering of public funds and such utter disregard of the consequences of this phenomenal profligacy have certainly no counterpart among European nations, and they clearly show that the only hope of salving the country is to place its finances under a rigorous and severe foreign control. For no party has proved itself immune from this mania of squandering the national patrimony. In fact it would be strange and something bordering on the miraculous if any

did so, for by nature the Rumanian is a jolly wastrel, and economy is foreign to his idiosyncrasy. If Rumanian finances during a brief period prior to the war were on a sound basis, this must be attributed to the energetic supervision of the late King Charles I, who would tolerate no nonsense on this head.

THE BUDGET, NATIONAL REVENUE, & PUBLIC DEBT

1931 BUDGET.

Revenue:	Lei.
Direct taxation	9,310,000,000
Indirect taxation: Customs	4,575,000,000
Alcohol and spirituous liquors	1,250,000,000
Other consumption taxes	2,589,960,546
Turnover tax	2,000,000,000
Theatres, etc.	100,000,000
Stamp and registration fees	4,150,000,000
Surplus from Monopolies and State commercial enterprises	5,477,917,747
Exploitation of State properties	767,500,522
Ministry of Finance	850,583,674
,, the Interior	37,968,000
,, Justice	146,950,000
,, Foreign Affairs	70,000,000
,, Agriculture and Domains	196,490,000
,, Labour, Health and Social Welfare	24,262,476
,, Industry and Commerce	167,370,000
,, the Army	124,269,332
,, Public Works and Communications	12,650,000
,, Education and Cults	29,011,354
Total	31,879,953,671
Sum resulting from reduction of salaries of employees at the Ministries, Monopolies and State Enterprises	3,426,000,000
Grand total	35,305,953,671

Expenditure:	Lei
Ministry of Finance	12,289,590,039
,, the Interior	1,716,234,526
,, Justice	1,314,876,270
,, Foreign Affairs	262,140,000
,, Agriculture and Domains	919,680,116
,, Labour, Health and Public Welfare	1,267,659,541
,, Industry and Commerce	405,028,771
,, War	10,204,029,661
,, Public Works and Communications	131,857,420
,, Education and Cults	6,419,666,327
Presidency of the Council of Ministers	75,191,000
Total	35,005,953,671
Fund for extraordinary and supplementary credits	300,000,000
Grand total	35,305,953,671

BUDGET AND NATIONAL REVENUE

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The forecasts for the revenue were not realized, revenue receipts for the year 1931 attaining 27,616 millions, from which 2718 millions should be deducted as this sum was obtained by a curtailment in the salaries of officials. The 1932 budget was prepared on the basis of the revenue receipts for 1931, since it had become evident that this yield would not be exceeded. It is balanced at the approximate figure of 24½ milliard lei. The forecasts for the revenue, however, have so far not been realized, the first five months having yielded only 6,700 millions. Owing to the serious decrease in the revenue receipts it was decided that a sufficient sum should be set aside each month to meet the requirements of the debt service, and the balance only would be distributed to the various ministries to allow them to face their most urgent necessities. In consequence, strict orders were issued that no expenses were to be incurred beyond the sum thus available. During the first months of the year some 1,250 millions were thus allocated monthly for the purpose of paying salaries and pensions, 505 millions were earmarked for the public debt, and another 250 millions were assigned for the purchase of materials, etc., but owing to the continuous diminution of the revenue even this very limited expenditure cannot be maintained, and the administration has been obliged to suspend the payment of salaries, which in certain cases are seven months in arrears.

The above budget figures do not show the total amount of State expenditure, for there are autonomous administrations which have independent budgets of their own, as, for instance, the railways, post office, monopolies, etc., and only the net results of the operation of these autonomous administrations are included in the budgets. The total amount of these autonomous budgets for 1931 was 21,888,333,272 lei. At the same time the grand total of the budgets of these administrations and that of the State for the year 1932 amounts to about 52 milliard lei. The service of the public debt for 1932 absorbs 6,764 millions, which does not seem to be a disproportionate charge as compared with a grand total public expenditure of 52 milliards, all the more so seeing that 2,150 millions are payable by the autonomous administrations of the monopolies on account of the service of

652 the loans concluded in 1929 and 1931, and some 930 millions are for the service of the internal debt.

The national revenue for the years 1926–1928 was computed at an average of 171 milliard lei annually, of which 110 milliards, or 64 per cent, were contributed by agriculture. The revenue *per capita* was computed at 9,709 for 1927, 11,324 for 1928, 10,400 for 1929, 7,875 for 1930, and at only 5,523 lei for 1931, the fall recorded being due to the drop in the prices of raw materials. State expenditure, as represented by the budget for 1931, absorbs approximately 25 per cent of the national revenue, but this is not the only expenditure which has to be faced. Thus for the year 1930, the last year for which complete figures are available, enabling us to form a true estimate of the total social expenditure incurred, we have:

Budgets of the State and of the Autonomous Administrations: 59,908,750,553 lei.

Budgets of the Communes, Municipalities, and Departments: 10,156,051,778 lei.

These sums represent a total charge *per capita* of 3,920 lei, while the national revenue was estimated at a *per capita* charge of 7,875 lei. This amounts to a charge of approximately 50 per cent for social expenditure, an altogether disproportionately heavy burden which largely accounts for the catastrophic decrease in the revenue, and points to the 439 gradual pauperization of the country. This inference may 652 also be drawn from the fact of the steady diminution of imports, which have declined enormously since 1927, not only in value but also in bulk, which proves that the buying power of the people has been gravely impaired, as may be seen from the following figures, the diminution in quantity indicating that the fall was in no way due to the drop in prices:

	Value	*Tons*
Imports for 1927 ...	33,428 million lei	1,008,069
,, 1930 ...	22,541 ,,	773,745
,, 1931 ...	15,858 ,,	564,338

BUDGET AND NATIONAL REVENUE

It is obvious that the present administrative machinery is too sumptuous an affair and that Rumania cannot afford to continue to live on such an ostentatious scale. Retrenchment is imperatively needed as well as a rapid return to methods of austerity, however disagreeable these may be to a people who are naturally inclined to profligacy. A drastic economy could be effected by the dismissal of well over 50,000 State functionaries who are superfluous. The *Revista Functionarilor publici*, their mouthpiece and organ, admits that in 1914 the number of State functionaries was 90,334. The war brought about a territorial increase of 216 per cent, so that proportionately the number of functionaries should be 195,133, but by 1930 there were as many as 245,187, or about 50,000 more than necessary. But apparently this total does not disclose the whole truth, for the writer was able to ascertain that while, according to the figures published in the above paper, the Ministries of Public Instruction, Home Affairs, and War had respectively 68,977, 28,894, and 32,630 public officials at the end of 1931, the numbers figuring on their respective pay-lists were 82,821, 31,318, and 33,533. To these enormous armies of officials should be added the staffs employed by the municipalities, etc., which would bring the total number up to nearly half a million. That public opinion is fairly alert on the matter and expects a drastic cutting down may be inferred from the following open letter published in the *Argus* for 16th May, 1932, which is of particular interest from many points of view:

"Rumania has a population of 18 millions, of which only 13 millions are Rumanians by race. Out of the 500,000 public functionaries 99 per cent are Rumanians by race, and a bare 1 per cent is recruited from among Hungarians, Germans, Jews, and Ukrainians. The proportion of the non-Rumanian elements in the public services is therefore infinitesimal, which proves that some 5 millions of people can live without constituting a charge to the budgets of the State, municipalities, and 'régies.' Why should not Rumanian functionaries once dismissed from the public services be able to fend for themselves as do those members of the ethnic minorities who receive no support from the budgets?"

It is admitted publicly that over 100,000 functionaries

could be dismissed without the working of the administrative machine being impaired in any way, and several instances are given of the plethora of officials. M. Bratanescu, deputy for Tighina, for example, pointed out in the Chamber that in his town, with a population of 31,698, there were 130 teachers, but as there were not enough children for each to have a full class, whenever an inspector came down, each teacher used to borrow children from the other classes in order to complete the number of his own so that he might escape being reprimanded by the inspector.

Another head on which various economies could be effected is pensions, which absorb about one-fifth of the total revenue, and many of which are served out to people who have not the slightest justification for drawing them. The tendency to spend overmuch for the upkeep of the social services is a characteristic trait of Rumania and was noticed and commented on many years ago by one of her distinguished social writers, M. C. Dobrogeanu-Gherea, in his work "Neoiobâgia." Referring to the period 1910–1911, he pointed out that the State budget and those of the communes absorbed over one-third of the national revenue, and what remained for the subsistence of the population amounted to 123 gold lei per head, or almost 4,000 lei, a figure closely approximating to the 3,955 lei which, according to the calculations given above, represented the net income per head for 1930. The above-cited writer condemned very caustically the profligate methods of the administration as likely to bring the State to ruin:

"By withdrawing annually from production these big sums and lavishing them on a parasitic bureaucracy, the State sets the example of a mad waste . . . by letting the bureaucracy spend extravagantly what the other classes create by hard toil, people form the illusion that this country is very prosperous and that it is easy to live in it comfortably. . . . This hypertrophy of the State organism is one of the most pernicious sicknesses which attack modern societies." (p. 455.)

It is indeed a great pity that no political party ever endeavoured to tackle the problem of thoroughly overhauling the administrative machine of the country, but that instead

BUDGET AND NATIONAL REVENUE

From the above it may be seen that Rumania, in order to meet her foreign debt payments, requires that her favourable trade balance should attain 7½ milliards and even further expand. The surplus of 1929 is to be attributed to the proceeds of the loan floated during that year. The surplus of 1930 is ascribable not only to the inflow of foreign capital but also to the very substantial excess of exports over imports. As an even more important excess of exports over imports was registered in 1931 (6,226 millions), that a considerable inflow of money followed upon the conclusion of a loan in Paris, and as, further, there was little or no outflow of money on account of foreign private capital invested in the country, it may be safely surmized that the balance of payments for 1931 must have shown an even more favourable result than that of the preceding year.

Owing to the deplorable plight of the Exchequer and its inability to find the means wherewith to pay the salaries of State officials, the view has been gaining ground that the State ought to suspend the payment of its debt service. The majority of the Press have widely approved and encouraged this idea, which is becoming exceedingly popular, as might be naturally supposed in a community which has deliberately fostered contempt for all engagements. Both public and Press, taking into consideration the default of adjoining States, find that it would be quite natural for Rumania to follow in their footsteps, since she has been equally affected by the present crisis. The fact that Austria, Bulgaria, Greece, and Hungary have been obliged to suspend their foreign payments abroad because they are unable to secure the requisite foreign currencies while Rumania, at least for the present, is not faced with any difficulties concerning the question of transfer, is entirely lost sight of. Even newspapers closely connected with the Government have joined in this campaign, and seeing that former Ministers like M. Junian, of the National Peasant Party, have openly indicated this measure as a panacea for the evils from which the country is suffering, it may be that eventually the question may be raised by the Government and foreign bondholders sounded on the subject. Should such be the case this delicate question will require to be handled with great tact and

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suavity, as the susceptibilities of France have to be carefully considered, for her political support is necessary to Rumania, and the latter cannot afford to jeopardize it for the sake of such transient monetary relief as the suspension of her public debt service might afford. Should this contingency arise and foreign bondholders be confronted with a demand for an alleviation in the charge of the actual debt (a revision of which may be justifiable to a certain extent, because the fall in world prices has increased the burden of the world's debts by at least 30 per cent, and has therefore correspondingly improved the position of creditors), then it would be well if British bondholders would keep in mind that the depreciation in sterling has already effected this readjustment so far as *they* are concerned. In fact this fall in sterling has brought about an annual saving of some 450 to 500 million lei to the Rumanian Exchequer. This matter is alluded to because in recent negotiations, British delegates have meekly accepted the same terms as were offered to other creditor States, the currency of which had not sustained a loss of some 30 per cent of its intrinsic value. The agreement reached on the Bulgarian loans issued under the auspices of the League of Nations may be taken as an example. French and American creditors will be receiving 50 per cent of the stipulated interest in francs and dollars, while the British investor will be receiving this 50 per cent in his depreciated currency, so that in reality he will be receiving only 35 per cent. At first sight it would seem that our official delegates might have stood up and insisted on equality of treatment with other countries and not contented themselves with a settlement which is distinctly more favourable to others. They might also have seized this opportunity and done something for the commercial debts due to our of foreign credits, and under pressure from French bankers, has been obliged to use her slender monetary resources for nationals, which are 'frozen hard,' because Bulgaria, devoid the payment of her State rather than of her private debts. This unilateral way of meeting obligations is certainly not to our advantage as a nation, for these commercial debts owing to our exporters constitute their capital, and so long as they are deprived of this money they must find it impossible to finance other exports from this country.

finance other exports from this country.* The total amount of private foreign capital invested in Rumania is estimated at some 28,300 million lei, according to the figures supplied to the League of Nations for 1930, but it seems to have been somewhat underestimated, judging from the amount of interest annually payable on foreign investments, which has always been computed at a much higher figure than 2860 or 2931 millions for 1929 and 1930 as is the case of the above-mentioned report.

The following table gives particulars of the Public Debt on January 1st, 1932, totalling 175,559,644,622 lei, of which 162,182,471,062 represent the external debt payable in foreign currency. The *per capita* indebtedness would therefore amount to 9,753 lei, on the basis of a population of 18 millions.

PUBLIC DEBT IN LEI

	Nominal amount.	Amount outstanding.
Pre-war loan	1,725,812,000	410,237,300
National Loan 1916 5%	400,000,000	354,194,800
District Railways Loan	39,000,000	23,678,413
Non-redeemable Loans:		
4% 1900 Brasov Schools	963,500	963,500
5% 1910 Pasturages	20,000,000	20,000,000
4% 1912 Mortmain	34,894,487	10,541,849
Union Loan 5% 1919	1,143,143,800	1,030,607,500
Reconstruction 5% 1920	2,730,911,000	2,477,280,000
,, ,, ,, (unblocked) ...	315,000,000	306,899,000
Expropriation Loan 5% 1922 redeemable ...	6,500,000,000	6,500,000,000
,, ,, ,, ,, non-redeemable	800,000,000	800,000,000
,, Mortgage Debt	560,000,000	560,000,000

DEBTS DEVOLVING FROM THE PEACE TREATIES

Annuities owing to Arad-Temiscora Rly. ...	11,843,765	8,796,618
Pre-war Austro-Hungarian loans stamped in Rumania	146,089,353	146,089,353
Rumanian quota of 3½% 1897 Hungarian Loan	37,926,002	37,926,002
Austrian Loan for Rly. Cernauti—N. Sulita	2,306,800	2,306,800
Loans of Bucovina 4% 1894 and 1910 ...	6,242,600	6,242,600

FLOATING DEBTS

Internal Treasury Bonds	687,652,430	687,652,430

*Our exporters to countries which have placed restrictions on exchange operations suffer yet from another disability, in so far as what available foreign exchange there may be is granted to local importers of raw materials in order that the native industry may not be stinted of its supplies. Naturally there is no foreign exchange left for importers of manufactured goods after the former have been supplied.

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	Nominal amount.	Outstanding amount of debt on Jan. 1st, 1932, in foreign currency.	Amount in lei.
PUBLIC DEBT IN FOREIGN CURRENCIES.			
Unified Stock 4% Paris Agreement ... ... Currency.	Gold Francs		
" " 5% " "	" "	433,000,000	290,256,540	2,363,095,467
" " 4½% London "	" lei	87,000,000	69,165,170	2,231,130,054
" " 4% Berlin "	" "	60,000,000	57,343,670	1,849,792,107
" " 1889, 4%	" "	425,000,000	118,551,225	3,824,225,416
" " 4½%	" "	21,000,000	6,475,680	208,892,485
" " 5%	" "	133,500,000	77,092,795	2,486,859,381
" " Consolidated 1922. London 4%	" "	57,000,000	18,172,590	586,211,408
" "	£ sterling	35,000,000	25,774,730	20,970,062,581
" " 6% 1925	"	2,500,000	1,613,760	1,312,938,998
" " 5% 1926 (for purchase of private rys)	Italian Lire	41,145,300	27,619,200	242,993,721
" " " " (" " of Maramures rys) ...	£ sterling	680,315	646,115	525,672,702
" " " " (" " of Arad-Cenad rys) ...	"	8,630	8,230	6,736,525
" " " " (" " of Somes rys)	"	111,890	107,410	87,387,702
	"	148,740	139,710	113,666,658
WAR DEBTS.				
War Debt to Great Britain	£ sterling	31,295,000	30,395,000	24,729,068,080
" " " U.S.A.	Dollars	122,506,260	119,806,260	20,029,210,535
" " " Italy	Italian Lire	247,500,000	173,500,000	1,526,453,000
" " " France	Gold Francs	924,105,350	659,562,566	21,276,169,270
" damages, Petroleum, 1916	£ sterling	16,475,818	15,361,050	12,497,596,670
DEBTS OF RECONSTRUCTION AND STABILISATION.				
Loan 7% 1926	Italian Lire	200,000,000	165,495,566	1,456,029,989
" " 1929 Stabilisation	£ sterling	2,000,000	1,945,500	1,582,339,345
" " " "	Dollars	69,000,000	67,172,200	11,229,848,396
" " " "	French Francs	561,638,000	546,320,600	3,587,399,930
" 7½% 1919 Reconstruction	" "	1,325,000,000	1,322,250,000	8,680,737,500

DEBTS DEVOLVING FROM THE PEACE TREATIES.	Currency.	Nominal amount.	Outstanding amount of debt on Jan. 1st, 1932, in foreign currency.	Amount in lei.
Perpetual Stock 4%	Fl. gold	143,834,877	47,482,009	3,829,186,849
4½% 1913 Hungarian amort.	Gold Crowns	35,368,996	9,903,318	335,434,323
Perpetual 1910 Hungarian 4%	„ „	63,196,660	17,694,784	599,328,286
4½% Stock 1914 Amort.	„ „	103,436,037	28,962,090	980,972,066
Annuities to Ry. Cos.	French Francs	30,555,500	23,880,596	156,286,909
Agrarian "A" Optants	Crowns	25,735,728	16,979,987	575,127,472
Rys. St. E.G.	French Francs	71,941,574	17,077,220	580,877,285
Loans, liberated in Crowns and Florins	Swiss „	42,500,000	42,500,000	1,370,965,000
VARIOUS				
Rumanian quota of Danube Com. Loan	Gold Francs	2,125,000	1,087,500	36,686,875
Relief Bonds, England	£ sterling	2,703,012	2,976,575	2,421,711,654
„ „ Australia	„	201,982	182,258	123,093,323
„ „ Denmark	Danish Crowns	201,982	154,785	6,934,819
„ „ France	French Francs	824,781	662,964	4,342,415
„ „ Norway	Norv. Crowns	84,159	64,483	2,889,564
„ „ Norway	£ sterling	3,366	2,580	2,099,265
„ „ Sweden	Swed. Crowns	151,486	118,668	5,201,166
„ „ Switzerland	Swiss Francs	269,810	206,380	6,657,406
William Pyton and Anne du Pont Pey, New York	Dollars	848,911	182,600	25,511,663
G. & D. Perkins, New York	„	848,297	182,600	25,511,663
Paul Stappel, New York	„	1,380,291	314,990	53,660,023
Cie Franc. d'Etudes et d'Entr. Coloniales	£ sterling	19,614	4,265	3,543,267
Marché Central de Cuirs, Peaux et Laines	„	17,269	4,315	3,917,962
Bca d'Italia Roma	Italian Lire	13,731,200	1,718,400	18,100,267
New York Trust Co., New York	£ sterling	2,107	948	771,669
Heirs of Anton Dimon	„	9,854	2,457	1,998,909
Co-op. Wholesale Society, Manchester	„	991,023	740,818	602,722,823
Banque Belgo-Helvetique, Brussels	Belg. Francs	63,484,655	12,814,660	89,516,519

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497 mained stationary, the revenue was inferior by some 1,600 million lei. Since then it has been announced that the deficit had attained 2,000 millions, and that the year 1932 would [652] also close with an equally large deficit. One of the causes of these huge deficits is that the State never pays its debts to the railway administration, in spite of the formal undertakings it assumed when the 1929 loan was floated. On the other hand the State insists on the railway administration paying into the State Treasury the savings it has effected by the reduction of the salaries of its officials. At the end of March, 1929, M. Vidrighin, a former director of the railways, published in the *Argus* a series of articles which explain some of the reasons why the exploitation of the railways is carried on at a loss. He thus pointed out that there are about four and a half millions of persons who make regular use of the railways, but of these some 800,000 are deputies, officials, pensioners, and military, who benefit by great reductions in the current fares, as do their families. So that some 1,200,000 persons, or about one-third of the regular users of the railways, are carried at a loss. Further, the law encouraging national industries provides that raw materials needed for them are to be carried to the factories at a rebate of 30 per cent, while goods despatched from these factories are to enjoy a 45 per cent reduction from the usual tariff. Thus a large part of the goods transported is handled at a loss. Losses are also incurred on official transport, which is mainly gratuitous.

To make good these losses the administration had hit on the simple contrivance of increasing the rates on goods as well as passenger fares, which expedient has resulted in a steady decrease in revenue. Thus in 1929 the total revenue amounted to 12,375,669,870 lei, in 1930 it had decreased to 11,291,600,463, and for 1931 it is reported that the revenue would again decrease by another 1,600 million lei. Passenger rates were so abnormally high that peasants could scarcely afford to travel by rail. For example, for a distance of 40 kms. a peasant would have to disburse 60 lei, a sum which it would have taken him two days to earn. To put a stop to the decrease in the traffic a drastic reduction of 40 to 60 per cent in the transport rates was recommended again

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433 Resita works and in the Copsa-Mica concern. The
471 most important Rumanian group, representing both German and British interests, was that of Malaxa-Auschnitt. The centre of Rumania's heavy industry is the region around Brasov.

The chemical industry, drawing to some extent on the unexported surplus of agricultural produce, developed substantially, thanks especially to attempts to make Rumania independent of imports. This industry, too, was controlled to a great extent by foreign, chiefly German, interests.

433 The textile industry, although handicapped by old-fashioned machinery imported from Germany, was the most prosperous. Production and value of output increased, as did the number of employees, but wages decreased.

433 Rumania's total industrial production was
511 doubled in the years 1924–36, but this was not re-
435 flected by a corresponding improvement in trade or in the standard of living. The general index of wholesale prices fell by almost a third and that of agricultural produce by nearly half; the prices of manufactured goods decreased by only a little over one-sixth. By 1933 the value of exports and imports had fallen to about 25,600 million lei and was only one-third of that of all foreign trade in 1926. Real wages in the period from 1929 to 1939 fell by over one-fifth, while the cost of living in 1939 was indexed at 138 points in relation to 100 points in 1933.

652 By 1937 Rumania's national debt had reached 257 million pounds sterling of which only one-fifth was represented by internal loans. Interest on foreign loans in 1932 amounted to about one-quarter of the country's budget and in 1937 to about 16%.

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A. PUBLIC FINANCE

The financial situation in Rumania during the 1930's was very like that of other south-east European countries, being influenced by similar factors.

During the years of depression at the beginning of the period, the situation was dominated by the sharp fall in agricultural prices on the world markets, and the existence of a very considerable foreign debt—amounting in 1935 to about 80 per cent. of the total national debt, which amounted to 139 milliard lei in March of that year.

After 1935, however, when prices began to rise, and various agreements had been reached with creditor countries regarding the service of the foreign debt, a distinct improvement was noticeable, which continued until the outbreak of war, when the heavy expenditure necessary for the maintenance of the armed forces on active service once again strained the financial resources of the country to the utmost.

1. The Budget in Pre-War Years

The budget years from 1930 to 1934/35 inclusive all showed heavy deficits, the largest being registered in 1931 and 1933/34.

In 1935/36 expenditure on the ordinary budget amounted to 20.7 milliard lei, and on the special national defence budget to 1.9 milliard lei—giving a total expenditure of 22.6 milliard lei, as against revenue of 23.09 milliard lei. It was, however, the practice to grant certain credits outside the budget, which, in so far as budget surpluses were insufficient, were covered by borrowing.

The main single items of expenditure in the ordinary budget were the Ministry of Finance (including the debt service), the Ministry of Defence (excluding the special national defence budget), and the Ministry of Education and Culture, accounting for approximately 35 per cent., 23 per cent. and 20 per cent. respectively of the total expenditure.

Expenditure on National Defence amounted to 30 per cent. of the combined total of the ordinary and National Defence Budgets.

By far the greater part of expenditure was covered by normal resources. Indirect taxes, customs duties and stamp and registration duties accounted for approximately 40 per cent. of the total revenue, profits from State monopolies and State enterprises 25 per cent. and direct taxes 15 per cent., the remainder being supplied by other administrative revenue and special resources.

By 1938/39 expenditure on the ordinary budget and the special National Defence budget (excluding any extra budgetary credits in respect of which there is no information) had risen to about 34 milliard lei—with expenditure on National Defence still accounting for some 30 per cent. of the total. In the same year total revenue amounted to approximately 35.5 milliard lei, of which some 45 per cent. came from indirect taxes, 17 per cent. from profits from State monopolies and enterprises, and 25 per cent. from direct taxes.

From March 1935 to March 1939 while the foreign debt dropped by 45 milliard lei, the domestic debt rose by 16.1 milliard lei—from 24.7 milliard lei to 40.8 milliard lei. This rise was

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largely due, first, to the conversion in 1937, of the foreign debt held by Rumanian nationals into domestic debt, and, secondly, to credits granted outside the budget and not covered by normal revenue. The drop in the foreign debt, while partly due to this conversion, was mainly due to the fact that war debts were excluded from the total.

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2. Expenditure in Wartime

After the outbreak of war, expenditure—particularly that on national defence—continued to rise. In 1941/42 a technical change was made in the budgetary system; instead of including profits from State enterprises in the ordinary budget a separate budget was published for State enterprises. Thus expenditure was divided into three categories, (1) the ordinary budget, (2) the special national defence budget and (3) budget for State enterprises. In addition in 1942/43 and 1943/44 separate budgets were published for Bessarabia and Bucovina.

The following table shows the budget estimates for expenditure on these four accounts for the budget years from 1941/42 to 1943/44.

	milliard lei		
	1941/42	1942/43	1943/44
Ordinary budget ..	44.9	72.5	88
Special National Defence budget ..	16.0	31.0	84
Budget for State Enterprises ..	35.0	113.0	192
Budget for Bessarabia and Bucovina ..	—	6.0	10
Total ..	116.0	212.5	374

The first nine months of the Russian war fell in the Budget year 1941/42. Actual expenditure in that year was 74 milliard lei higher than the estimates, since 90 milliard instead of 16 milliard lei was spent on the special national defence budget and 12.5 milliard from the ordinary budget was allocated to Defence. Thus published expenditure on national defence accounted for over 75 per cent. of all budgetary expenditure (excluding that on State enterprises) as against 30 per cent. in 1938/39.

It is officially stated that in 1941/42 slightly over 50 per cent. of all expenditure was covered by normal resources, and the remainder by loans.

Since the outbreak of war the yield from taxation has increased, partly as a result of inflationary conditions, and partly as a result of increased rates of taxation and the imposition of new taxes.

The burden of taxation was, however, already so heavy that an increase sufficient to cover expenditure could not be achieved, and large scale borrowing became necessary.

3. Government Borrowing during the War

Early in 1941 a "Reintegration Loan" with no fixed limit for subscription was issued. It was in two parts, the one bearing 4½ per cent. interest and maturing in 30 years, the other—designed principally for agriculturalists—bearing 5 per cent. interest with 5 years' maturity. Despite the various attractions offered (freedom from taxation on interest, premiums, etc.) the response to this loan was very poor. The final date for subscriptions was repeatedly postponed; in September,

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CHAPTER X

652 722 1941, subscriptions were made compulsorily, and in 1942 a Reintegration Tax was levied on all persons who failed to subscribe the amounts allotted to them. In spite of all this the loan had only raised some 18 milliard lei by September, 1942.

A further attempt to borrow from the public was made at the end of 1942, when the Minister of Finance was authorised to issue short term 4 per cent. Treasury Bills to a value not exceeding 20 milliard lei. As with the long term loan, interest from this loan was free from taxation.

In spite of these measures, however, considerable amounts have had to be borrowed direct from the National Bank—partly on account of extra-budgetary credits for non-military purposes, but more especially to finance the war with Russia which—at the beginning at least—was done entirely outside the budget.

In June 1941 when miscellaneous advances to *the Government already amounted to 20 milliard* lei, the National Bank was authorised to derogate from the provisions of its statutes and to advance any amounts necessary to cover exceptional needs. In this way a further 12 milliard lei credit on this account was put at the disposal of the Government to finance the Russian war. This credit was, however, exhausted by January 1942, but the National Bank's miscellaneous advances continued to rise, reaching nearly 30 milliard lei by June 1942. After June 1942, borrowing on this account fell considerably, only to rise at the end of the year and the beginning of 1943.

4. External Position of the Leu

652 Rumania is still officially on the gold standard, the parity of the leu having been fixed in 1929 at 1 leu=0.009 g. fine gold or 111.111 lei per kg. gold.

This parity has, however, no practical significance, since from 1935 onwards it has been the practice to pay premiums for gold over and above the official price. In order to encourage domestic production of gold additional premiums are paid to domestic gold producers, so that the effective internal price of gold varies, according to the productivity of the mine, from 400,300 lei to 867,500 lei per kg. fine gold. (*See* also section on gold, page 23.) Official dealing in "hard" currencies, too, is done not at parity but at parity plus a premium. From December 1935 to February 1940, the premiums were fixed at 38 per cent., from March 1940 to March 1941 at 107 per cent., and after the latter date at 90 per cent.

652 648 The last reduction of premiums from 107 per cent. to 90 per cent. was made under German pressure, on the grounds that the RM., on which no premium was paid, was undervalued in relation to "hard" currencies. And at the same time as the effective rates for such currencies were lowered (in the case of the $ from 211.65—217.97 to 187.60—196 lei per $); the RM. rate was raised from 50 lei=1 RM. to 60 lei=1 RM., at which level it has since remained.

5. Prices and Price Control

435 As a result of the world depression there was a severe fall in prices during the early 1930's. Both wholesale prices and the cost of living reached their lowest level in the years 1933 and 1934. In the following years there was a gradual recovery, which became increasingly marked after 1939.

The retail price index has increased during the war as follows:—

August, 1939	100.
January, 1940	116.6.

[52 a]

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June, 1940		237.1.
January, 1941		149.5.
June, 1941		190.9.
January, 1942		290.6.
June, 1942		306.9.
January, 1943		377.6.
March, 1943		403.9.

The less marked rise in 1942 was due principally to the fact that for the first 6 months of the year prices were almost stationary; in the autumn, however, indirect taxes were increased and prices once again rose steeply.

These percentages represent only increases in official prices; the cost of living is in fact considerably higher owing to the prevalence of the Black Market, where prices are very much in excess of the official limits.

The first attempts at price control were made almost immediately after the outbreak of war. In September 1939 an anti-profiteering law was passed, and in November of the same year an anti-speculation law followed, which fixed the maximum prices of all articles in general use and limited wholesalers' profits to 10 per cent. and retailers' to 12 per cent.

The regulations were further tightened up by the price control laws of March, 1941, and the sabotage law of October, 1940.

Control, however, remained largely ineffective, and in October 1941 a stabilisation law was passed. This law, which borrowed much from the existing German laws, laid down a general price stop. Maximum prices and wages were fixed at the level prevailing on 1st September, 1941, and alterations could be made only with the permission of the Minister of Economics.

In addition the State set up goods distribution centres which, among other functions, supervised producers' prices, profit margins and consumers' prices.

Since August 1942 the supervision of prices has been in the hands of a General Commissariat for Price Control, and the local offices subordinate to it. It is evident that corruption among price-control officials was by no means a negligible [661] factor in the very unsatisfactory development of the control system in general. In the autumn of 1942 it was announced that all existing price controllers were to be dismissed and replaced by members of the teaching, legal and literary professions.

B. BANKING

1. State and State-Controlled Banks

652 453 The National Bank of Rumania was set up in 1880 with a capital of 30 million lei, of which one-third was in the hands of the State. By 1929 this had been raised to 600 million lei. Under the present statute the State may not hold more than ten per cent. of the capital; the remaining ninety per cent. must be held by private shareholders. This bank has the sole right of note issue for the country.

From the end of 1930 to the end of 1938 the note circulation rose from 19·6 milliard lei to 34·9 milliard lei. In the next four years, however, the increase was very much greater as the following table shows:—

		Milliard lei
1939—	January	34·2
	June	38·7
1940—	January	48·4
	June	54·2
1941—	January	65·7
	June	77·1
1942—	January	95·6
	June	98·7
1943—	January	117·0

[52 b]

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453 This was largely due to the advances of the National Bank both to exporters with claims on the Rumanian-German clearing, and for the maintenance of German troops stationed in the country (see below).

Among the fairly numerous other State or State-controlled banks, two of the most important are the Central Savings Bank and the National Institute for Industrial Credit. This latter was founded in 1923, but its size and scope have been greatly extended since the outbreak of war, and it is now entrusted with the so-called "Rumanisation" of industry.

2. Commercial Banks

453 There are six important commercial banks in Rumania—viz., Banca Românească, Banca de Credit Român, Banca Commercială Română, Societatea Bancara Română, Banca Commerciala Italiana şi Română, Banca Chrissoveloni—and a fairly large number of other smaller banks. In the big banks there were considerable French, German, Italian and, to a lesser extent, British interests.

The position of the banks was very seriously affected by the collapse of the Österreichische Creditanstalt in 1931.

Between 1930 and 1934 current account deposits in commercial banks fell from 28·2 milliard lei to 7·9 milliard lei and time deposits from 35·1 milliard lei to 10·4 milliard lei, representing a 64 per cent. fall in total deposits. In subsequent years there was a recovery and new inflation contributes a large share to the further increase in deposits. Deposits in commercial banks with a capital of more than 60 milliard lei rose from 10·6 milliard lei at the end of 1934 to 28·6 milliard lei in August, 1942.

In May 1934 a law was passed affecting domestic and foreign banks operating in the country. According to this law a Supreme Banking Council was set up to supervise all banks; minimum capital was fixed according to the locality in which the bank operated; rates of interest were fixed, and conditions of liquidity laid down. This law is still in operation, but certain of its provisions have been relaxed since the outbreak of war—the first time in February 1942, and a second time early in 1943. The alterations principally concerned the proportions of deposits to capital—in each case the maximum limit for deposits being increased.

As a result of the activities of the Supreme Banking Council a large number of small banks has ceased to operate and the banking system in general has been put on a much sounder footing.

3. German Infiltration and Financial Exploitation

453 Apart from penetration into other branches of
648 industry, there has been a considerable amount of buying up of shares by Germans in Rumanian banks and insurance companies. Already before the war the Societatea Bancara Romana was controlled by the Dresdner Bank, while the Commerzbank and the Deutsche Bank had a minority holding in the Banca Commercială Română. This latter holding was increased in 1941 to 60 per cent., and in the same year the *Reichskreditgesellschaft* acquired a minority holding in the Banca de Credit Român, and the Berliner Handelsgesellschaft in the Banca Chrissoveloni. In 1942 the Bank der Deutschen Arbeit acquired a holding in the Bukarester Handelsbank. Thus, since the Banca Commerciala Italiana şi Romana is a subsidiary of the Banca Commerciala Milan, five out of the six important banks are to a greater or lesser extent Axis-controlled. In addition there are

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certain fairly important *Volksdeutsche* saving banks operating in Rumania.

In the case of insurance, too, German companies had considerable interests in Rumanian companies even before the war. These interests have been greatly increased, the most important acquisitions being a majority holding in the Dorna Vatra company acquired by Jauch und Hübener in 1941, a similar holding in the "Franco-Romana" taken over from French hands by the Nordstern Versicherungs A.G. in the same year, and a holding taken over from French hands by a Viennese company in the "Nationala" General Insurance Company—also in 1941.

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Though the great increases in budgetary expenditure since 1939 can be attributed indirectly to Germany, the chief instruments of German financial exploitation have taken the form of advances from the Rumanian National Bank for the maintenance of German troops in the country, and for the clearing (i.e. forcing the Rumanian National Bank to make advances to Rumanian exporters whose exports were not balanced by corresponding imports from Germany).

4. Advances for Maintenance of German Troops

It was originally agreed that 1 milliard lei per month should be advanced—against an equivalent RM. credit in Berlin—to the German troops in Rumania. In fact, however, the Germans drew sums in excess of this amount, and continued to do so even after the majority of troops had left the country.

In October 1942, therefore, the National Bank refused to grant any further advances of lei for the use of the German troops. The Germans, however, brought pressure to bear by refusing to honour Rumanian invoices for goods they had received, and by borrowing from the banks through the medium of the firms which they controlled. The situation appears to have remained unchanged until January 1943, when it seems that a new agreement was reached, the National Bank once again undertaking to advance a fixed monthly sum, and in addition to make up arrears in payment. It is reported that towards the end of 1942 the National Bank had advanced some 40 milliard lei on this account.

5. The German-Rumanian Clearing

In addition to this German debt there is a further one of probably at least equal magnitude which has accrued in the clearing.

Precise figures of the actual German clearing debt to Rumania are not available and estimates vary very greatly. The amount of the debt at the end of 1942 has been variously reported at anything between 30 milliard and 100 milliard lei.

It is, therefore, reasonable to assume a minimum clearing debt at the end of 1942 of 30 milliard lei, and a minimum total debt (clearing and advances in the National Bank to the German military authorities) of 70 milliard lei—or approximately £117,000,000.

It is, however, quite possible that there is some justification for the German claim to the effect that clearing and similar debts are not wholy indicative of German commercial practices, inasmuch as certain German exports are made against long-term credits which do not enter into the clearing until several years have elapsed. In the case of Rumania, Germany is known to have granted in recent years two credits of RM. 600 million each (96 milliard lei), but it is not known to what extent actual production for the German export market made it possible for Rumanian importers to utilise these facilities.